# PARITY
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BY

JOHN D. BLACK

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# PARITY, PARITY, PARITY

BY

JOHN D. BLACK

*Henry Lee Professor of Economics*
*Harvard University*

CAMBRIDGE, MASS.
THE HARVARD COMMITTEE ON RESEARCH IN
THE SOCIAL SCIENCES

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## *A SELECTED LIST OF STUDIES FINANCED BY THE HARVARD COMMITTE ON RESEARCH IN THE SOCIAL SCIENCES*

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*Twenty Years of Federal Reserve Policy*, Volumes I and II, by S. E. Harris, Harvard University Press, 1933

*The New Party Politics* by A. N. Holcombe, W. W. Norton & Co., Inc., 1933

*The Economic Literature of Latin America*, Volumes I and II, Bureau for Economic Research in Latin America, Harvard University, Harvard University Press, 1935 and 1936

*The Essential Factors of Social Evolution* by T. N. Carver, Harvard University Press, 1935

*The Supply and Control of Money in the United States* by Lauchlin Currie, Harvard University Press, 1934 and 1935 (two editions)

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*The Politics of Democracy* by Pendleton Herring, W. W. Norton & Co., Inc. 1940

*The Control of Competition in Canada* by L. G. Reynolds, Harvard University Press, 1940

*Economics of Social Security* by S. E. Harris, McGraw-Hill Co., Inc. 1941

*Experiments in Methods of Municipal Analysis* by Morris B. Lambie, Bureau for Research in Municipal Government, Harvard Graduate School of Public Administration, 1941

*The Structure of American Economy, 1919–1929* by W. W. Leontief, Harvard University Press, 1941

*Unfair Competition* by J. P. Miller, Harvard University Press, 1941

*National Unity and Disunity* by G. K. Zipf, The Principia Press, Inc. 1941

*The Growth of American Constitutional Law* by B. F. Wright, Houghton Mifflin Co., 1942

# *FOREWORD*

Although the subject of this book is parity prices, wages and incomes, the object toward which it is pointed is the effort of the Federal Government to regulate the prices of farm products—along with wages and with prices of other products. Books unfortunately cannot be mounted like searchlights on carriages that permit them to follow their objects to almost any point in the sky. Even as this book went to press, the President announced a general wholesale and retail freezing of prices.

But sweeping though this announcement was, it is by no means the end. Unless the war by a miracle concludes within a few months, governmental price control will spread to new areas of our economic life, and it will sink its roots deeper into agriculture. Still, public price control is a vegetative growth and not a blossoming. How much it spreads and what shapes it takes are within our power of direction; likewise what useful and what harmful results come from it. This will continue to be true as long as wartime control and carryover post-wartime control are with us.

Some of the information in this book is current. It will already be a little out-of-date when the book reaches your hands. Certainly this will be true of Chapter IV on "Price Control as It Now Is." But the basic facts and relations between agriculture, labor and business enterprise, and between farm prices, industrial wages and earnings of capital, from which the issue of parity derives, will be as pertinent three years hence as now. This is equally true of the analysis of inflation, of methods of price control and of a dozen other subjects developed in this book.

For the reader who picks up the volume a year hence and wishes that some of the charts and tables were brought down to date, the author intends each spring for a while to publish a pamphlet or an article with reprints which will meet this need. He will appreciate hearing from those who are interested in receiving such a pamphlet or reprints.

The author is trying to serve two classes of readers, first, a general public made up of those persons who are deeply interested in the wartime relations between agriculture, labor and the rest of our society and the connections of these with the problem of price control; and second, a body of students in our universities who would like to supplement their present course reading by a vital discussion of the foregoing subjects in basic economic terms. The style of the book and its organization are journalistic rather than professional economic. The mechanics of logical ordination are largely concealed. The charts and tables are simple and informal. Only a few pages here and there may be heavy going for those with little background in economics. The rest of the book is understandable without these.

It necessarily follows that the analysis is not thorogoing. No doubt in some cases a more detailed analysis would alter the conclusions somewhat. The author hopes that others will find time in the next year or two to help him with such revisions as are necessary.

Will the reader take note here at the outset that the author refrains from describing his book as scientific or even objective. He remembers too well how a pair of fellow economists once described one of their books as the first "objective" analysis of a certain proposal that had ever been made, and how one of its protagonists replied by saying: "Sure, they started out with a certain objective and they never lost sight of it from beginning to end," and then almost demonstrated that he was right.

Very few problems in economics are capable of being resolved into definite conclusions to which no one can take any reasonable exception. Nevertheless there is a way of analyzing and writing about economic problems that is much more nearly in the manner of science and more nearly objective, than the method of the usual pamphleteer and protagonist for a particular cause or course of action. It involves looking at the problem from all sides, introducing all the factors in the problem, and trying to give each of them their due weight. So far as the author is able to do so, this is the procedure followed in this book. Conclusions are sometimes reached, but they are relatively the least valuable part of the effort. The author is more concerned with presenting the pertinent facts and analyses needed to enable the reader to formulate good conclusions of his own.

There are many statements in this book which the friends of agriculture, of labor, or of industry and trade, will not like, and may even condemn as untrue. The author regrets this but sees no escape from it. He will be mortified only if the consensus of opinion of his readers is that he has not dealt out both pleasant and unpleasant truths equally to all three.

For those in agricultural circles who will be disposed to comfort themselves with the thought: "Oh, well, what can a Harvard economist know about agricultural conditions?" the author merely wishes to say that he has tried to maintain his contacts and connections with agriculture since he quit farming in 1915; that in particular he spent the major part of last year on leave from academic duties and in travelling about in the South and West mostly, for the purpose of seeing actual farming conditions and talking with farm people and those who are administering the agricultural programs. During most of this period two younger associates helped him in this survey so as to make his own time count as much as possible. The Rockefeller Foundation financed this latter part of the cost of the survey. This book is not a report upon this survey. That is coming later. But it furnished good background for it.

No one who writes on economic subjects these days can escape a heavy indebtedness to a corps of public servants who collect and organize the data concerning agriculture, labor, and industry and trade upon which he must draw so freely. These data are becoming more nearly adequate each year. Important questions are answered in this book which could not have been answered a few years ago. The ship of state can now determine its bearings and lay out its course in tempestuous economic seas with a sureness of eye and hand little dreamed of in Adam Smith's day. It is not possible even to list the names of the hundreds of men and women who have assembled and prepared the data used in this book. But the obligation to them is none the less great.

Special acknowledgement must be made of the assistance of Mr. Marion Clawson in the preparation of Chapters XII, XV, XVI and XVIII. Much of the statistical analysis in these chapters was largely his. Three of the writer's colleagues at Harvard University reviewed the manuscript for him and made important suggestions, Professor Alvin Hansen, Dr. Hans Staehle and Dr. John T. Dunlop. Several on the staff of the U. S. Department of Agriculture and the Office of Price Administration also read the manuscript in whole or in part and helped greatly with suggestions. It is much more necessary in this case than usual to point out that the reviewing of the manuscript by these men does not commit them to any of its pronouncements. The author has chosen to differ with each of them on important points.

For clerical assistance in the research basic to this study, the author is indebted to the Committee on Research in the Social Sciences at Harvard University and to the Works Progress Administration. The statistical laboratory part of the analysis was ably directed by Miss Althea MacDonald, Secretary of the Committee on Research in the Social Sciences. For help in the economic analyses, he is obligated to the Littauer School of Public Administration of Harvard University. This study is an outgrowth of many afternoon sessions of the *Seminar in Agricultural, Forestry and Land Use Policy* devoted in the past several years to consideration of the "parity problem."

John D. Black

Harvard University
May 10, 1942

## CHAPTER I

# *THE THREE PARITIES*

*The farmers are asking for Parity. But parity for Agriculture alone is impossible. Parity is a balance concept—like an apothecary's scales. If Agriculture gets more than its share and tips the scale beam downward in its favor, then the rest of society must get less than before.*

*The balance in this case, however, has three scale pans instead of two, one for Agriculture, one for Labor, and one for Capital. Hence three Parities must be considered—Parity for Agriculture, Parity for Labor and Parity for Capital.*

*The term Parity was brought into the discussion by Agriculture. But Labor has* thought *parity ever since there have been free men. In this country it has thought it with increasing intensity since the turn of the century. In concrete terms, the issue for Labor has been higher wages, shorter hours, and better working conditions. In more general terms, Labor has been fighting for a* larger share of the REAL income of society.

*Agricultural discontent arose—not phoenix-like, but raven-like—out of the ashes of the War between the States. Its shadow hovered not only over the desolated South, and over the retrograding agriculture of the East, but even over the fertile western prairies which were piling eastern markets high with their produce. The unrest subsided in the two decades following the Spanish-American war, but came to vigorous life again after 1920. The rumblings of the new groundswell became vocal enough so that spokesmen for agriculture began talking about the "farmer's share of the national income"* *and about "fair exchange value." The particular term Parity did not come into wide use until after 1930.*

*Capital also has had its years of discomfiture. They have been periodic, with every business recession. The recessions in 1893, 1907, 1914, and 1921 developed into major depressions. But the spokesmen for Capital have never made the mistake of asking for a larger share of the national income. The public would have reacted to such a plea as it did recently to pensions for congressmen. Capital had other ways of looking after its income share, but they did not keep depressions from recurring. The scales still tip steeply against Capital in every recession.*

*Three Parities though there be, it has remained for Agriculture to make us conscious of it. Labor and Capital fought out their differences in their own way, leaving Agriculture pretty much a bystander. Now Agriculture has barged into the fight, sparring first with one and then with the other. And the public looks on somewhat in amazement, somewhat in bewilderment, but until recently mostly in interested enjoyment of the unwonted spectacle. To many good citizens of the country, this whole business of Parity has been just a good farce. They have sat back and watched with huge delight the antic show that our agricultural statesmen have been stage directing with deadly earnestness in the name of Parity. The best comedy is seldom deliberately conceived. Its actors and stage hands are seldom aware of the mirth-utilities they are creating.*

*To this tragio-comedy, the author has been moved to give the name, "Parity, Parity, Parity." Not only is he thinking of the Three Parities in the national income balance; but also of a refrain from a poem of Alfred Tennyson's, written on one of the rare occasions when that romantic Victorian descended to the plane of ordinary human existence. The poem is about an old Northumberland farmer on his deathbed whose mind is still in the grip of the hard struggle he had waged over the years to get together and protect a little "property." To his dazed mind, the fading-out cantering* *hoof beats of his favorite horse seem to say over and over again: "Proputty, proputty, proputty—that's what I 'ears 'em saäy." If today almost any leader of a farm organization, or a congressional spokesman for the same, were to be seized with apoplexy in the midst of his grandest peroration, the beat to which his heartblood would be throbbing through his flooded brain would have some such measure as: "Parity, parity, parity—that's what the farmers need."*

*Of late, the tragedy note in the play has become dominant. All good comedy has an accent of high seriousness. But in the ten months since last August, scarcely anything else has been heard. The antic delight of the public at large has been turned into alarm. It is this consternation that led the author in February to turn his energies to the writing of this book.*

## CHAPTER II

# *THE FARM BLOC vs. THE NATION*

And so the forces of Agriculture now find themselves drawn up in battle formation and facing Labor and Capital, and in some weeks of late, almost facing the public. Farm and city are again arrayed against each other. Twice in the 1920's the farm contingent amassed enough power in Congress to pass what it considered helpful legislation, only to have it vetoed by President Coolidge. The measures finally enacted in 1933 and subsequent revisions no longer satisfy the farm groups, now that industrial wages have risen and the government has been helping them to rise, and now that industrial profits in war industries have been in a measure guaranteed. Never before have the forces of agriculture been so strongly mobilized in Congress and out. At times recently, it has almost seemed as if the Farm Bloc was riding herd over Congress, the President of the United States, and the people of the nation.

But Labor is also powerfully organized and represented, and not merely in the halls of Congress. As for industry and trade, they have behind them an older and better record of successfully guarding and promoting their particular interests than have Agriculture and Labor. Resources of wealth and gifted personnel count mightily in a struggle of interests for advantage.

Just at a time of great peril to the common cause for which our great Union was conceived, witness these three forces armed to the teeth and facing each other in Congress, in administrative parleys, in WPB and OPA conferences. If each group were to be granted all that it asks, no one of them would get more than a fraction at most of what it really seeks. The boons granted each would cancel the others out—mostly, if not altogether. Meanwhile the nation's great needs are met haltingly and late. The Price Control Act, highly necessary to the orderly functioning of our wartime economy, alternately boiled, simmered and cooled for six months while the interest groups each stood by guarding its own position; and finally was served up to the nation on January 30 as a flat stale stew with vital ingredients missing. Greatly needed new tax legislation is now in process of suffering a similar fate. Procedures for the conversion to savings and taxes of the increased earnings of the great mass of well paid wage workers and other middle-income folks are still in their experimental stages.

The ignoble fate of France in the past few years is plain for all to see. The basis for this was laid in the twenty years before. All of this time strong forces within struggled for control of government, desiring to shape it to the ends of particular interests. Each group insisted that the ends it sought were best for the nation too. Meanwhile the true best interests of France triumphed only sporadically. The Chamber of Deputies went rapidly from bad to worse, and the debacle continued right down to the final collapse with the German invasion. In the last two years France could not even get her army and navy organized and defenses built.

The British government was functioning only a little better during the latter part of this period. One shudders to think what would have happened had England been placed geographically where France is, with her turn to meet the German hordes first.

There have been times when popular government has largely failed even in these United States. One of those times was in the last three years of the Hoover Administration. The nation was prostrate, factories were idle, banks were failing, and there was no market for surplus farm products. Yet the Congress could take no useful action, tied hand and foot by contending factions all looking mainly after their immediate interests as they saw them. You will remember how our people in those years took to scoffing at Congress, especially at the Senate. The situation for our government was the worse because it had been able to produce little needed legislation in the eight years before.

* * * * *

To prevent a recurrence of such a situation in this country the first requirement is a good understanding by each group of the conditions within the other groups. Given such an understanding, all three can put their feet under a common table and can usually work out measures that are good for them all. It is the author's hope in this book to contribute particularly to the agricultural part of such a mutual understanding. He wants the people of this country to understand their agriculture so that they can talk and write and act sensibly with respect to it—not just our men and women of public affairs, but leaders of industry, merchants, teachers and preachers, and indirectly at least, workers in factories and mines, and the great mass of consumers of the foods and fibres the raw materials of which are mostly produced on farms. Conversely, he wants farm people to have a better sense for the realities of the problems of labor, industry and trade.

Back in the spring of 1933 when our Congress was continuing in special session mostly for the purpose of framing a new agricultural program, and press and meeting place were astir over the "agricultural question," the writer was asked to lead a discussion of proposed legislation before a group of city tradesmen, bankers, editors, financial writers and the like. It quickly appeared that his opening statement had taken for granted altogether too much knowledge of agriculture as it now is. The questions that rained on him were such as these: If the farmers don't get enough for their wheat, corn, and cotton, why don't they do as we business men do—grow less and get higher prices? Why don't cotton farmers quit cotton and grow something else? If there are too many farmers, why don't more of them quit farming and become carpenters, plumbers, or painters? If, as you say, there are more farm people in the Appalachians than there is land for, why don't they go west where there is still plenty of land? Why don't farmers operate on a larger scale, and use more power and machinery, in this way lowering their costs—just as we city folks have had to do now that wages are so much higher? Why can't the farmer run his business as we have done, without all this help from the government? Who is this fellow you call the County Agent? Where does he come from? What does he do? What's this Agricultural Extension Service you speak of?

A few days later a letter came over the writer's desk which read as follows:

"Your answers to questions the other day clarified many things for me. For a long time I have had a suspicion that I didn't know a darn thing about agriculture. Now I am sure of it." The letter was signed by the managing editor of a large daily newspaper.

Not long after, the author faced a small midwestern group of farmers, county agents, extension workers and teachers of agriculture. The questions they asked were such as these: Why have farmers been getting poorer since the World War, when city workers have been getting higher wages, and city capitalists higher profits? Why have land values been falling since the World War, when stock prices have been rising? (They were thinking of the years 1920–1930.) Why does it cost almost twice as much to buy a grain binder now as before the War, when farm prices are much lower? If it didn't take so much of the consumers' dollar to handle food products after they leave the farms, wouldn't the consumers have more money with which to buy farm products? How can city people say there are too many farmers, when everybody knows there are twice as many stores and filling stations as we need? Why should anybody in the city not have enough food to eat? We farmers are only too glad to produce it for them at a very moderate price. If the manufacturer can figure his cost of production, add a profit and set his prices accordingly, why shouldn't the farmer do the same thing? Why can't he? If the government passes laws that make it possible to set up big corporations that can maintain high prices for farm machinery and farm supplies by keeping down competition, why can't the government figure out some laws that will help us do the same thing for our products? Why should the meat packers who buy our hogs and cattle, and the speculators who buy our grain, live in mansions and ride around in limousines, when we poor devils who produce them can't even afford to turn in our old Model T's and buy Chevvy's? If it is all right for labor to go on a strike for higher prices, why isn't it all right for farmers to strike for higher prices? We are told that labor is not a commodity—how about our labor that we can sell only by selling our corn and hogs! You say that industrial laborers should have insurance against losing their jobs—how about some insurance for us when we lose the markets for the products which contain all our labor?

Very foolish questions, some of you will say. But they are not the least bit more so than those asked by the city folks.

The most important point is that there was a large fragment of truth in most of both sets of questions. It was this fragment that gave to the questions the aspect of total truth in the minds of the questioners. So long as great numbers of city folks and of farm people have understandings on the one hand, of agriculture and its problems, and on the other of industry and trade and its problems, which are built out of such half-truths or less, there can be little hope of agreement as to helpful courses of action. Most of the time the two groups will not even be talking the same language—words identically spelled will not even mean the same to both.

No less wide is the breach between agriculture's understanding of the problems of industrial labor and industrial labor's comprehension of agriculture. When a labor union stages a strike and refuses to haul the farmer's produce to market, or refuses to let farmers work in a cooperative packing plant handling the farmer's own apples, or debars farmers from unloading their own produce at a public market, then even in peace time the bill of rights and the whole Constitution of the United States seem to the farmers to have been negated. In wartime such conduct seems to them not much less than national sabotage. When the Wage and Hour Administration sets thirty-five or forty cents an hour as a minimum wage in southern textile mills, and farmers are paying eighteen cents an hour for cotton hands in the surrounding areas—and seemingly unable to pay any more at current cotton prices—and camp contractors not far away are paying sixty cents an hour for common labor, then indeed is there need for high-powered explanation in five-dollar words. A farmer-employer of hired labor, in turn, is to the union leader an excellent prototype of the individualistic small employer who has forever wanted to run his own business "without interference from labor," and often with small regard for the welfare of his employees. His heart may even ache for a chance to take a hand some day in the "education" (socialization, he may call it) of these farmer-employers. Union laborers may agree in principle that farmers should have prices high enough so that they can pay reasonable wages to labor. But still they are likely to feel that they pay too much for the milk, eggs, butter and beefsteak which they buy, so that they have little left over from their own earnings with which to buy a home, life insurance, and an automobile.

* * * * *

In the last year and a half, the issues driving these economic groups apart have related more to prices of farm products and wages than to any other one subject. They have therefore directly concerned farm groups and wage earner groups more than others. Recently, however, because of the threat of inflation, the whole body politic has become concerned and the discussion has become general. Scarcely a newspaper in the East did not have an editorial when the Farm Bloc and Secretary Wickard broke loose in the Senate, and another a week later when the President and Secretary Wickard parted company a little with the Farm Bloc. So generally has the public denounced the attempt of the Farm Bloc to boost prices of farm products above the level of "parity"—which apparently it was about in a frame of mind to accept—that the situation literally became, in a few weeks, one of the Farm Bloc *vs.* the nation. And so it has remained. The President's recent request that ceilings on farm prices be set at parity instead of 110 percent or more of it, and the Farm Bloc's sulking about it, has made the situation even more acute.

It should be made clear at the outset that this does not mean "the farmers" against the nation. The Farm Bloc is very far from being the equivalent of the farmers of the nation. What, then, is the Farm Bloc? Strictly speaking, the Farm Bloc of today is only a group of senators and congressmen, nearly all from rural states and constituencies, together with their supporting farm organization leaders and lobbyists, who at any given time may hold ideas about agricultural legislation and administrative policy which are sufficiently alike so that they pull together for a common end. They may differ enough at times as to what each wants so that no unified drive is possible. For example, one group is much interested in the smaller or less prosperous farmers, other groups more generally in the larger and more commercial farmers; and this may lead to divergent positions on some issues. In the recent struggle over the price control bill, the groups partly agreed and partly disagreed. The disagreement prevented final passage only of the extreme features of the Senate bill.

It will be apparent at once that the legislative and administrative policy supported by this Bloc may not always represent the interests of the farm people. The evidence is clear at times that the cotton trade, for example, stands to gain much more from proposed measures than do the cotton farmers. In the usual manner of popular organizations, the leaders and central management may stand to gain much more from a given measure than the rank and file of the organization membership. Both of these may be true even in the short run as well as in the long run. The mere fact that the Farm Bloc has fought for above-parity prices is not evidence that the rank and file farmers are wanting them, or would ask for them if they understood the issues and were given a chance to vote on them. Nor is it even sure evidence that the members of the farm organizations themselves would ask for such prices. In fact, there is much basis for the judgment that the rank and file of farmers do not want inflation, and do not favor further price-lifting legislation. *They expect the war to assure them of satisfactory incomes;* and with good reason.

The original Farm Bloc came into existence in the depression after the war of 1917–18. It had a somewhat formal set-up, with Senator William S. Kenyon of Iowa as chairman. The House end of this bloc never really developed. The Senate bloc was fairly effective during 1920–23. It began to disintegrate when in 1921 a group wanting highly protective tariffs on wool, wheat, sugar, and some California products split off to form the "western tariff bloc," for the purpose of making a log-rolling deal with an eastern dairy lobby group. Senator Kenyon was a moderate protectionist. Its death blow was President Coolidge's premeditated appointment of Senator Kenyon to a federal judgeship.[1]

The press, however, has never ceased to talk about a farm bloc. Whenever the senators and congressmen from the agricultural regions have voted more or less together on an issue, the farm bloc is said to be in action. It is true that a continuing body of farm organization and lobby support has given to the congressional delegation from the rural areas a certain amount of unity and coherence.

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[1] See Senator Arthur Capper's book, *The Agricultural Bloc,* 1922, Harcourt, Brace and Company, New York.

## CHAPTER III

# *AGRICULTURE NOW*

This brief chapter undertakes to assemble a few general facts as to what has been happening to our agriculture recently. Without these freshly in mind, many readers will not readily follow some of the discussion to ensue. Presenting these facts is the more necessary because the statistics of agriculture published these days are confusing, and the claims based upon them often more so.

One of the readers of this book, for example, asked the simple question: Is our agriculture still growing or isn't it? He had been looking at some census figures such as the following:

| | Number of farms | Land in farms (acres) | Land used in crops[1] (acres) | Number of gainful agricultural workers[2] |
|---|---|---|---|---|
| 1910 | 6,362,000 | 878,800,000 | 311,000,000 | 12,146,000 |
| 1920 | 6,448,000 | 955,880,000 | 349,000,000 | 11,362,000 |
| 1925 | 6,372,000 | 924,320,000 | 357,570,000 | 11,446,000 |
| 1930 | 6,289,000 | 986,770,000 | 371,950,000 | 11,173,000 |
| 1935 | 6,812,000 | 1,054,515,000 | 359,300,000 | 11,172,000 |
| 1940 | 6,097,000 | 1,061,000,000 | 349,160,000 | 10,445,000 |

The changes obviously are not large either way, since even as far back as 1910; but such as they are they are conflicting, land in farms moving upward, labor force downward, and crop land upward to 1930 and downward since. The general trend of the series for number of farms is slightly downward except for 1935.

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[1] For 1910 and 1920, data for only harvested crop acreages are available.

[2] From *Crops and Markets*, January, 1942, p. 5. Includes men, women and children who do farm work.

The series on number of farms needs explanation. Many of you will recall that five years ago the Bureau of the Census, and presently the press, was commenting upon the strong back-to-the-land movement evidenced by the 6,812,000 farms reported in 1935. The Bureau of the Census is now comparing 1940 only with 1930, and calling attention to a 3 percent decline in number of farms. Little is being said about an apparent decline of 715,000 farms between 1935 and 1940. The truth is that the 1935 count was not comparable with the 1930 count, nor with that of 1940. No census enumeration of farms is more than approximately complete. The 1930 count was low even as judged by 1910 and 1920 standards. The 1935 enumeration was high if judged by such standards. The 1940 count has not been analyzed enough yet to enable one to form a good judgment about it. If we assume that the 1930 figure should have been around 6,450,000, one would be on the safe side in concluding that the number of farms fell off 200,000 to reach 6,250,000 in the 1930–40 decade.

The 1940 enumeration of land in farms, although far from complete, was the most thorough yet made. Base maps, made up from road and air maps, were available for a majority of the counties. Even since the peak reached in the last war, there has been some increase in land in farms, but most of it has been of semi-arid land.

The acreage of crop land has really subsided since 1933. Most of this has been in the Great Plains area.

The census count of gainful workers in agriculture in 1940 has not been announced yet. It will probably run lower than the estimate given in the table.[1] Part-time farming plays a large role in any enumeration of gainful workers. In 1940 nearly a sixth of the persons classified as farm operators worked off their own farms 100 days or more, and all but a seventh of this was at non-farm occupations.

We shall come nearer to answering the question about the growth of agriculture if we make use of some measure of output that combines crop and livestock production, as in the accompanying table of index numbers. The physical volume of 1910 is here represented as 100, and that of later years as percentages of the 1910 volume. The 31 percent increase in output in 1910–40 very definitely indicates that our agriculture is still expanding. The three following columns show that it is expanding per worker, per acre of land in farms, and per acre of crop land. Output per acre has increased in spite of the lower productivity of the newer

*Index Numbers of Changes in Physical Volume of Agricultural Output*[2]
(1910 = 100)

| | Physical volume | Volume per worker | Volume per acre in farms | Volume per crop acre [3] | Volume per capita of total population |
|---|---|---|---|---|---|
| 1910 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1920 | 117.6 | 115.2 | 108.1 | 104.9 | 101.9 |
| 1930 | 123.2 | 130.0 | 109.7 | 102.9 | 92.3 |
| 1940 | 130.9 | 126.4 | 108.3 | 116.5 | 92.1 |

[1] An estimate of the agricultural "labor force" as low as 9,163,000 was recently distributed in a Census Bureau release.

[2] Based upon the Bean-Strauss index numbers extended forward from 1938 in terms of the BAE series. See USDA Technical Bulletin No. 703, p. 124.

[3] The figure for crop acre increase is lower than it should be—120 would be nearer right for 1940.

and drier lands. This is mainly because more of the product is being fed to livestock, thus having a "manufacturing stage" added to it.

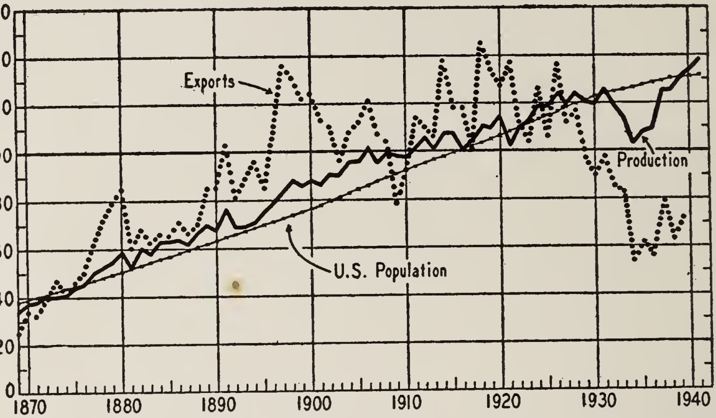

CHART I. *Index Numbers of Physical Volume of Agricultural Production and of Exports of Farm Products; Population of the United States; 1870–1940.*

(Index numbers—1910–14 = 100. Population in millions)

The last column in the table relates growth in volume to population increase. Chart I accompanying shows this relationship in detail by years back to 1870. There always has been a surplus of farm products for export, but it never has been as high as around 1910; and it fell off considerably after 1920. The low period in the 30's was due partly to drought and partly to production control. By 1940, volume had caught up with population growth, and it is surely running ahead of it now.

* * * * *

The reader no doubt will welcome a little more detail as to changes in agricultural output under the production control program in operation since 1933. The peak in crop acreage planted was 376,000,000 in 1932. Two years later, only 339,000,000 acres were planted; but three years after that, 365,000,000 acres again. The first flush of production control was over. The 1940 and 1941 plantings were both 349,000,000 acres.

The explanation of the foregoing changes is furnished in part by shifts between crops. Cotton plantings have declined from 40,250,000 acres in 1933, the year of the plow-up, to 23,250,000 acres in 1941; wheat plantings in the same years from 68,500,000 to 62,400,000 acres; and corn plantings, from 108,530,000 to 87,160,000 acres. Offsetting these increases in some measure have been increases of 6,425,000 acres in soybeans, 1,436,000 in cowpeas and peanuts, and of around 6,570,000 in tame hays such as lespedeza, soybeans, alfalfa and the like.

The increase in crop acreage from 1934 to 1937 was of wheat and cotton mostly, 17,400,000 of the former and 6,000,000 of the latter. Crop control of the 1933 type did not hold the lines very well, especially after the Hoosac Mills decision. The decrease since has mostly been in the same products plus corn. The new type of production control has kept down the acreage of three of the basic crops; but the decreases in corn and cotton have been fully or largely offset by increase in acre yields. The expanding acreages of annual and other legumes, the improving yields of several main crops, and the increase in livestock production, have combined to produce the rising index of agricultural output in 1935–41 shown in Chart I.

* * * * *

The violent changes in agricultural incomes in and out of the depression years of 1930–35 are clearly exhibited in Chart II. The "net income to persons on farms" includes wages paid to farm labor. The direct government payments to agriculture, large though they may seem to taxpayers, have not gone very far toward bringing the net income of farmers back to their 1929 levels. Net farm incomes were pretty close to the bottom in the depressions. They have been getting well back to 1929 levels in the past year or two.

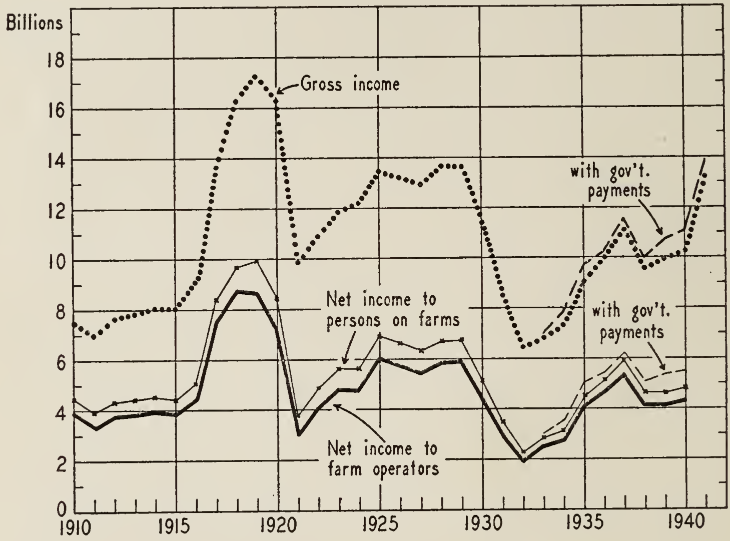

Chart II. *Gross Farm Income, Net Income to Persons on Farms, and Net Income to Farm Operators, with and without Government Payments, 1910–1940.*

(From Table 2 of *Materials Bearing on Parity*, a mimeograph report of the Bureau of Agricultural Economics, July 1942.)

The movements in prices associated with these income changes are presented fully in later chapters. Suffice to say at this point that the index numbers of prices received by farmers stood at 65 in 1933, at 122 in 1941, and at 146 in March 1942. The ratio of prices received to prices paid, the "parity ratio" of which the readers will hear much in later pages, has risen from 61 in 1932 to 100 in May 1942.

* * * * *

The effect of the foregoing price and income changes upon the capital structure of farms in the United States is indicated in general terms by the data in the accompanying table. With the decline in land values since 1920, the mortgages have decreased in size; but the owners' equities have decreased still more. The net incomes of agriculture since 1920 have not been large enough to enable the new generations of farmers to make enough down payments at time of purchase, and subsequent payments on the principal, to maintain equities at former levels.

| | Value of farm real estate: per acre | per farm | Mortgage debt per farm, mortgaged farms [2] | Ratio of mortgage debt to value |
|---|---|---|---|---|
| 1920 | $69.40 | $10,280 | $3,360 | 29.1 |
| 1930 | 48.50 | 7,610 | 3,560 | 39.6 |
| 1933 | 30.80 | 4,800 | — | — |
| 1940 | 31.70 | 5,520 | 2,660 | 43.3 |
| 1942 | 34.30 | 5,980 [1] | — | — |

* * * * *

Much concern has also been expressed in recent years over an alleged loss of proprietorship of farms by the rank and file of farmers. One form which this is supposed to have taken is an increase in the size of farms due to mechanization and other causes. The other is an increase in the amount of tenancy. The census data are very confusing on both these points. The increase in acreages counted within

[1] Estimated.

[2] The census data on mortgages are for owner-operated farms only.

farm boundaries in 1940 coupled with some omission of farms has created an impression of more increase in the acreage of farms than has really occurred. The accompanying table presents the author's approximate revisions of the national averages in terms of acreage and indexes of output; likewise census-reported data as to the percentage of farms rented. The increase in acres per farm since 1910 is not significant if one allows for the low productivity of much of the new land in the West. The increase in output per farm is more important. The low figure for 1935 reflects the droughts and crop restrictions of the 1934–36 years plus the increased number of small farms.

| | Acres per farm: Census reported | Revised figures | Output per farm (1910 = 100) | Percentage of number of farms rented |
|---|---|---|---|---|
| 1910 | 138.1 | 138 | 100.0 | 37.0 |
| 1920 | 148.2 | 148 | 116.0 | 38.1 |
| 1930 | 156.9 | 153 | 121.5 | 42.4 |
| 1935 | 154.8 | 158 | 106.0 | 42.1 |
| 1940 | 174.0 | 170 | 133.4 | 38.7 |

Taken at their face value the census data indicate little expansion of tenancy. But they need to be broken down before they tell their story. The 1920 census reported 23 percent of all tenant farms as operated by share croppers. By 1930, this figure had risen to 29 percent. But in 1940 it was back to 23 percent again. These croppers are all in the South. They are not really tenants; they are laborers who get their wages as a share of the cotton or tobacco. The census enumerators do not naturally think of them as tenants, and missed a good many in 1920 and earlier. In 1930, they were following instructions much better. Then in the last ten years, due to the AAA program, WPA work relief, tractor power and other factors, many land-owners have shifted back to using straight hired labor again.

Since 1920 when the census first published data for croppers separately, the percentage of farms operated by non-cropper tenants has increased only from 29.4 to 31.0. In the 1930–40 decade, the increase was about one percent. These latter figures really give the true picture as to growth of tenancy in the United States. It is also of significance that one-fifth of the farms reported as rented have sons, sons-in-law or other close relatives as tenants. Only one farm in four in the United States has a bona fide tenant upon it.

The national averages conceal important local variations. The western Corn Belt and the grain-growing Great Plains states have percentages of tenancy ranging from 45 percent in Kansas to 53 percent in South Dakota and Nebraska. Take out croppers from the figures for the South and the percentages range from 23 percent in Mississippi and North Carolina to around 40 percent in Alabama and Texas. In general, the high percentages of tenancy in the West and South are offset by low percentages in the areas of small farms in the Northeast.

In the last decade, the percentage of farms rented by full tenants has increased considerably in a few of the states, notably in the Dakotas and Nebraska. Iowa and Illinois had no increase. Most of the South experienced a decrease in number of tenants the same as of croppers, but not as marked a decrease.

The national average of acres per farm is the result of a considerable increase in acres per operating unit west of Mississippi River and in the Corn Belt proper, and an increase in small tenant holdings in the South and in small farms in the East. Much of the increase in the West has been of semi-arid land and was greatly needed. Much of that in the Midwest has been the result merely of enlargement of family-sized farms made desirable because of tractor operation.

If it were possible to classify the farm land of the country according to percentages of it in individual ownerships or even individual operating units of various sizes, the picture would not be so pleasing. The published census data enable one to say that two-fifths of our farm land is in farms or ranches of 500 acres or more, and a sixth of it in units of 5,000 acres or more. Around 15 percent of the output of our farms comes from units with annual outputs valued at $10,000 or more.[1] This figure of 15 percent broken down areally becomes 45 percent for the Pacific states, 54 percent for California, 26 percent for Montana, 30 percent for Connecticut, 16 percent for Iowa, and 3 percent for Wisconsin.

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[1] This and the following percentages are based upon the 1930 census.

## CHAPTER IV

# *FARM PRICE CONTROL AS IT NOW IS*

A more precise title for this chapter would be "Farm Price Control as It Was When This Book Went to Press." The amendments to existing legislation recently requested by President Roosevelt will if granted alter somewhat the procedures hereafter outlined. The author has kept this possibility in mind, however, and what follows will be applicable in either case. The farm price control situation is greatly confused at its best and some attempt must be made to clarify it.

Perhaps the reader will be assisted if he recognizes clearly at the outset that two lines of legislation are involved, one, the Emergency Price Control Act of 1942, whose object is to keep prices from rising, and the other a series of agricultural acts beginning in 1933, whose purpose is to raise prices of farm products. Not only have these two lines of legislation come into conflict, but also the agencies set up to administer them.

It was in the original Agricultural Adjustment Act of 1933 that parity price was first defined as "that price for the commodity which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodity in the base period . . ." Thus it is a price for a bushel of wheat, taken as an example, which will buy now as many pounds of food, yards of cloth and other things which farmers buy for family and farm use, as the same bushel of wheat bought in the base period, which is August, 1910, to June, 1914, for all but one of the five "basic" crops. This base period is ordinarily referred to as 1910–14. The administrators of this Act were instructed to bring prices of farm products up to this level at as rapid a rate as was "feasible." The subsequent revisions of the Act include the Soil Conservation and Domestic Allotment Act in 1936, the Agricultural Marketing Act of 1937, the Agricultural Adjustment Act of 1938, and finally a series of amendments in the spring and summer of 1941, culminating in the Steagall Amendment of July 1. This Amendment provides for loans on the five basic crops (cotton, wheat, corn, rice and tobacco) at 85 percent of parity, and for supporting 85 percent of parity, or a "comparable price" on any non-basic commodity whose production needs to be expanded, "through a commodity loan, purchase or other operation."[1]

The Price Control Act is intended to provide ceilings on prices, thus to check "speculative price rises, price dislocations and inflationary tendencies." But special provisions of this act (Sections 3a and 3b) prohibit its application to farm products below certain specified levels. They also provide that no ceiling will be set on a farm product "without the prior approval of the Secretary of Agriculture." Furthermore, Section 3c states that: "No maximum price shall be established or maintained for any commodity processed or manufactured in whole or substantial part from any agricultural commodity below a price which will reflect to producers of such agricultural commodity a price for such agricultural commodity equal to the highest price therefor specified in subsection (a)."

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[1] Public Act 374, passed subsequently, extends the period for the 85 percent loans and adds edible peanuts to the list of basic products.

President Roosevelt accompanied his approval of the Price Control Act with a statement containing the following paragraphs: [1]

"The farm program which has been developed since 1933 has set parity prices and income as a goal. There is nothing in this Act to prevent farmers receiving parity or a fair return. But I feel that most farmers realize that when farm prices go much above parity, danger is ahead. One of the best ways of avoiding excessive price rises, of course, is abundant production. And I hope agricultural prices can be maintained at such level as to give farmers a fair return for increasing production.

"In giving my approval to this legislation, I am acting with the understanding, confirmed by congressional leaders, that there is nothing contained therein which can be construed as a limitation upon the existing powers of governmental agencies, such as the Commodity Credit Corporation, to make sales of agricultural commodities in the normal conduct of their operations. In my message to the Congress on August 25, 1941, disapproving the bill H. R. 5300, I pointed out the extreme disadvantages of any action designed to peg prices through the arbitrary withholding of Government-owned stocks from the normal channels of trade and commerce. I further pointed out that the Commodity Credit Corporation should be free to dispose of commodities acquired under its programs in an orderly manner, for otherwise it will be impossible to maintain an ever-normal granary, to protect farmers against surpluses and consumers against scarcity; and that to restrict the authority of this corporation would greatly increase its losses, nullify the effectiveness of existing programs, and by breaking faith with consumers be inconsistent with our present price control efforts.

"I also should like to call attention to the fact that I am requesting the departments of the Government possessing commodities to make such commodities available to other departments in order to aid our war effort. This request, primarily, will affect the cotton stocks of the Commodity Credit Corporation and will permit such stocks to be utilized, directly or by exchange, in the production of war goods. Such transfers will be in addition to the quantities which are now available for sale. The request will also include grain and other commodities which may be needed by the departments concerned."

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[1] H. R. 5300 to which President Roosevelt refers was the bill proposing to freeze in government hands the existing stocks of government-owned cotton.

Meanwhile Secretary Wickard, in an address at Atlanta on January 28, had stated very clearly that farmers should be satisfied with parity, that some price ceilings on farm commodities would be needed, and that he would do all he could to keep farm prices from "going much beyond parity," except in cases where higher prices were needed to "enable farmers to shift" to peanuts and other products needed for the war effort.[1] He reaffirmed this position before the Senate Committee on Agriculture on January 31, explaining that he had already released stocks of cotton, wheat and corn from the "ever-normal granary."

The "joint statement" issued by Wickard and Henderson on February 3 must be read carefully and in full in order to understand clearly the bases on which farm price decisions are now being made. Here the two agencies agree to join forces in an effort to stabilize the cost of living and check wartime inflation, at the same time permitting particular farm prices to rise as need be to bring out the required volumes:

"With the passage of the Price Control Act, the Office of Price Administration and the Department of Agriculture intend to spare no effort to prevent inflation. These two agencies share this important responsibility and we are in complete agreement as to the objectives to be achieved. Successful prosecution of the war by ourselves and our allies requires that the disorganizing influences of inflationary price movements be eliminated. Preventing war-time inflation will minimize the danger of another post-war deflation, and so contribute to winning the peace. If inflation is to be controlled, it is now especially important that effective, positive steps be taken to stabilize the cost of living. The Department of Agriculture and the Office of Price Administration intend to pool resources to do all they can to accomplish this end.

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[1] The statements are from the official statement released to the press at 12.30 P.M.

"First of all we must have abundant production and the Department of Agriculture intends to see that every possible step is taken to insure abundant supplies for all. This has been and will remain the consumer's best assurance of fair prices. Government-owned stocks of grains and cotton will continue to be used to supplement private stocks. Farm legislation and the farm production goals for 1942 have now placed floors under the farm prices of all major products at levels sufficient to protect farmers in carrying out a great increase in production. Steps will be taken to keep feedstuffs at reasonable levels in order that increased production of meats and livestock products will not be hampered by high feed costs. The Office of Price Administration will use its power to see that prices of the things that farmers buy are held down, so that farm production will not be restricted by unnecessarily high production costs.

"A high level of production will not in all cases be sufficient. Where prices get out of line the Office of Price Administration with the advice and assistance of the Department will establish maximum prices. In such cases it will see that this protection is afforded all the way through the channels of distribution to the ultimate consumers. In those cases where there is not enough to go around, steps will also be taken to assure that there is fair distribution to all.

"The American people should realize that it will be the objective of their government to stabilize the cost of living. They, too, can do their part. There is no occasion for hoarding of food. Total supplies of most staple foods are at record or near record levels. Families who hoarded in the past were simply misguided. Now they are both misguided and unpatriotic, for such buying upsets markets and encourages inflationary price advances.

"It should be a point of pride with every good American not to hoard or to waste food. Consumers should buy more of commodities which are plentiful in supply. Thus, they can assist farmers and stimulate the output of larger supplies by directing their purchases to commodities that are relatively abundant. From time to time the Department of Agriculture and the Office of Price Administration will draw the attention of consumers to commodities which are in relative abundance, and to desirable shifts in food habits.

"We should like to repeat that the government intends to mobilize its full resources for all-out agricultural production at prices fair to farmers and consumers. Our aim is to stabilize living costs and prevent war-time inflation or post-war deflation. We invite the assistance of farmers and consumers in seeing that the job is done."

The Department of Agriculture has set up a committee to look after the details of its part of this understanding. The chairman is Mr. J. J. Reed of the Office of Agricultural Defense Relations, a unit set up to coordinate the activities of the Department of Agriculture into the general framework of the national war program. The other members are Mr. Robert Shields, Solicitor for the Department of Agriculture, Mr. Oris V. Wells, a program analyst of the Bureau of Agricultural Economics who concerns himself with prices and marketing, and Mr. T. J. Flavin, a lawyer serving as assistant to Secretary Wickard. Those who direct the work upon prices of farm products in the OPA are Mr. J. K. Galbraith, Assistant Administrator; Mr. David Ginsberg, General Counsel; and Mr. Howard

Tolley, Chief of the Bureau of Agricultural Economics, on loan to OPA since February 24, for the purpose of helping to develop a smoothly operating farm price program. Galbraith and Tolley, and their several assistants working on farm products, Mr. Harold Rowe, Mr. A. C. Hoffman and Mr. J. P. Cavin, are all trained and experienced agricultural economists.

The manner in which the two agencies will finally function will develop out of experience. Thus far the procedure has been about as follows: the staff members of OPA who handle products are constantly watching and studying the behavior of prices of different products. When they think that a ceiling or price order may be needed they make recommendations to Mr. Henderson. If Mr. Henderson approves, Mr. Reed is informed that OPA is beginning work on a possible order for the product. From this point on, the price specialists in OPA and in the Department of Agriculture work as a team on the problem, exchanging data and facts and ideas at every turn. Most of the actual work is likely to be done by the man or men who know most about the particular product, regardless of which agency employs him. Hence there is no real duplication of effort. In due time, the OPA group prepares a definite proposal which it refers to Mr. Henderson and his lieutenants for approval or revision. When approved, it is referred to Mr. Reed for review by the Department of Agriculture. Any changes suggested go back for clearance to OPA. Final negotiations may be between Secretary Wickard and Mr. Henderson.

At present writing, only the wool schedule has gone through this process. Most of the work done by the two groups has been of an informal nature on prices of products processed from raw farm products. Prices of these do not require prior approval of the Secretary of Agriculture, but at the same time they must not be set contrary to the stipulations of Section 3c.

The first task under the Price Control Act was to clear the price ceilings that had already been set and bring them under the provisions of Section 3, as provided for in Section 206. These were published in the Federal Register of February 21 and include the following domestic farm products or derivatives thereof:

| Date on which first set | Product | Ceiling |
|---|---|---|
| June 16, 1941 | Hides | 15½¢, Grade 1, down to 13½¢ for lower grades. |
| June 16, 1941 | Kids and calfskins | 27¢, top grade, down to 20¢ for lower grades. |
| Aug. 14, 1941 | Raw cane sugar | \$3.73 to \$3.76 at different ports of entry. |
| Dec. 13, 1941 | Fats and oils | Oct. 1 price, plus a premium for lard. |
| Jan. 6, 1942 | Direct-consumption sugars | \$5.45 per cwt. cane, \$5.35 beet, etc. |
| Jan. 20, 1942 | Animal product feedstuffs | January 17 prices. |
| Feb. 4, 1942 | Soybean and peanut oils | October 1 prices. |

Ceilings had also been set on coffee, tea, pepper and cocoa beans; also on a considerable list of yarns and fabrics made from cotton and wool.

Between February 21 and the issuance of the general freeze order on April 28, price ceilings were set on the several additional agricultural products listed on page 31.[1]

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[1] Also on May 21 the temporary ceiling on pork products was made permanent. This means that prices as of March 3–7 were set as the upper limit instead of the highest any time during March. The order explains that at the wholesale prices prevailing on those days, live hogs at the Chicago market averaged \$13.15, which may be contrasted with \$11.76 as the minimum ceiling that could be set under the law, this being 110 percent of parity.

The usual procedure at the outset was to issue a temporary freeze order, which set ceilings at the highest prices that had prevailed in the preceding five days. This had to be followed by a permanent order within 60 days, but in this time a better balanced schedule could be worked out. The general freeze order of April 28 left all permanent orders on farm products as they were, with one major exception, and provided that those under temporary orders would come under the general order when the 60 days had expired. The major exception was cotton goods. The prices on cotton yarns and textiles were fixed at the levels determined by the highest price quoted for raw cotton on 10 spot markets during March—20.37 cents per pound.

| Date on which set | Product | Ceiling |
|---|---|---|
| March 3 | Canned and preserved foods | February 23–27 prices |
| March 3 | Domestic and shorn wools | From $1.20 per pound clean basis down to 88¢ |
| March 11 | Dressed hogs and wholesale pork cuts | March 3–7 prices |
| March 18 | Raw cane sugar | Ceiling raised on imports from countries other than Cuba |

Exactly what farm products and prices were included in the April 28 order is indicated by the following excerpts from the official explanation of the order:

> "Among those controlled are prices of almost every processed food commodity—such as bread, cake, and bakery products; beef, pork and their products; sugar, fluid milk and cream sold at retail; ice cream; canned meats, soups, canned fruits and vegetables; canned fish and other canned seafoods; cereals; lard and shortening; coffee, tea, cocoa, salt, and spices. Also covered by the ceiling are all clothing, shoes, dry goods, and yard goods; soap in all forms; every kind of common fuel (even firewood); pipes, cigars, cigarettes, and prepared smoking and chewing tobacco; . . . and hardware and miscellaneous agricultural supplies."

The list of exceptions included the following farm products:

"1. Any raw and unprocessed agricultural commodity or greenhouse commodity while it remains in substantially its original state, except bananas. In general, prices of such commodities are fixed at the stage of first processing, although fresh fruits and vegetables, plants, flowers and the like are excluded entirely.

2. Eggs and poultry.

3. All milk products, including butter, cheese, condensed and evaporated milk (but not fluid milk sold at retail, cream sold at retail, and ice cream).

4. Flour (but not packaged cake mixes and other packaged flour mixes).

5. Mutton and lamb.

6. Fresh fish and seafood, and game.

7. Dried prunes, dry edible beans, leaf tobacco (whether dried or green), nuts (but not peanuts), linseed oil, linseed cake and linseed meal, mixed feed for animals, and manure.

8. Living animals, whether wild or domestic.

9. Stumpage, logs and pulpwood, wood and gum for naval stores (rosin, turpentine, etc.)."

The following commentaries on this order help in understanding it. First, the order sets a retail price ceiling on pork and several other farm products for which only wholesale price ceilings had been set before. Second, it includes all those farm products whose farm prices during some time in March were at 110 percent parity or alternative price ceiling under the Price Control Act. This brings in pork, beef, veal, wool and even cotton under the special interpretation given.[1] Third, it excludes those farm products whose March prices were not at 110 percent of parity or alternative ceiling. This covers butter and cheese, eggs and poultry, and mutton and lamb. Fourth, in a few cases, retail prices are fixed even though farm prices were not everywhere at ceiling levels in March, on the assumption that the difference could readily be absorbed out of the spreads between farm and retail prices. In this bracket are bread, prepared flour mixes, and fluid milk. Fifth, fresh fruit and vegetables were excluded because their prices are seasonal. Sixth, the products with announced prices are handled in such a way that the new ceilings will not conflict with them. This applies to dry edible beans and linseed oil. Seventh, *this general freeze order did not require prior approval of the Secretary of Agriculture*, since it excluded prices of all raw farm products at the farm.

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[1] See Table on p. 38 for these ceilings.

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The setting of the bottom prices by the Department of Agriculture is more complicated. Several pieces of legislation are involved. First is the procedure of establishing bottoms on basic crops through loans at 85 percent of parity. Here the Department has no option under the present statute, provided the producers have not voted down marketing quotas for the product.[1] The only determinations are what parity price is "at the beginning of the marketing season" when the loan goes into effect and how this parity is distributed geographically and by grades. Location differentials are now applied to all products. The range on corn at present is from \$.70 per bushel in Nebraska to \$.84 in the eastern commercial corn area; on wheat, from \$.80 to \$1.25; on cotton, about 1¼ cents per pound between the Carolinas and California. From 1934 to 1941 the corn loans had no differential. This resulted in the storing of unusually large quantities in the low-price areas—in Iowa notably.

If the product is milk, minimum prices are established only under marketing agreements or orders now in effect in milksheds. An elaborate procedure of hearings is required, in which parity price is taken into account, but also—

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[1] If the producers have voted against quotas, no loans are permitted under the Acts. If no vote has been taken, the USDA can make loans if it wants to.

> "the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand for milk and its products in the marketing area to which the contemplated agreement, order, or amendment relates."

Further, the prices must be such as will "induce a sufficient quantity of pure and wholesome milk and be in the public interest." The Price Control Act specifies that no ceiling shall be set lower than that provided in marketing agreements, orders or licenses.

If some other non-basic product is involved, the Secretary of Agriculture may simply announce a price at not less than 85 percent of parity, "or comparable price therefor," whenever, in his own judgment, such prices are necessary to encourage the expansion of production of a product. As to how he shall choose to support such a price, he is limited only by his financial means. He may make loans without recourse, or purchase and hold, or purchase for direct disposal through depots or school lunches, or purchase for diversion to less valuable uses, or purchase for Lend-Lease. It will be necessary to determine what parity price is, so as not to fall below 85 percent of it. "Comparable prices" for non-basic products must be in line with parity for the five basic products—presumably in line with some sort of average of them. (The law is not specific on this point, but this is the way in which it has been interpreted in the case of soybeans, peanuts and dry peas.) They must take account of changes in the "character" or "extent" of the "production or consumption" of the product since the base period. This in effect means that they must be in line with recent conditions under which the product is produced or consumed.

The Steagall Amendment apparently was not considered necessary for products entering into Lend-Lease operations. At any rate, as early as April, 1941, central market price floors were announced of $9.00 for hogs, dairy products, basis of $.31 for butter, $.15 for chickens, and $.22 for eggs —these to maintain until June 30, 1943. The new legislation in July called for revision of these to 85 percent of parity or its equivalent. On March 15, these stood, on a farm price basis, at $9.09 for hogs, 22.2 cents for eggs and 14.4 cents for chickens (excluding broilers). These are national averages, and need to be broken down territorially before they can be easily applied. Failure to do this has caused some confusion, even though the average prices for all these products have thus far been well above the support level. Prices equal to or above 85 percent of parity had been announced in late August for evaporated milk, dry skim milk and cheese. More recently the buying prices for cheese and evaporated milk were revised downward slightly, and the Department announced it would support 92-score butter at Chicago at 36 cents a pound through the summer of 1942. For canned tomatoes, prices to growers have been announced at $7 to $7½ per ton above the 1940 level. This means an average of around $18 per ton. For peas, the announced price is $17½ per ton above 1940, which represents an average of around $65 per ton. The release publishing the revised production goals on January 15, 1942, also contained announcements of floors for flaxseed and dry edible beans based on 85 percent of parity, with "adjustments, when applicable, for location, type, grade, and class;" also for soybeans, peanuts and dry peas, with comparable prices as a basis, these being determined by comparing their prices with the average of those of the five basic crops in 1934–39. A series of support prices

(75 percent of parity) for potatoes produced in 1942 in specified areas has also been announced.

For several products an absolute lower limit was also announced—$2.10 per bushel of peanuts, $1.60 per bushel of soybeans, both farm basis, and $82 per ton for white Spanish-type peanuts at local receiving points. These absolute minimums were in fact clearly above parity, or the "comparable price," for peanuts, soybeans, and dry peas, as in fact were several prices announced earlier.

A proper question to ask is how these prices will be sustained at these levels. Before June 30, 1943, the terminal date of the guarantee, supplies of several of these products sufficient to depress the market may become available. The price supports are: (1) Lend-Lease purchases, at levels largely under control of the Department of Agriculture; (2) direct purchases by the army and navy, which it is presumed will be at the guaranteed levels; (3) purchases by the AMA[1] for distribution through the stamp program, school lunches, direct distribution, etc.; (4) commodity loans made by the Commodity Credit Corporation (CCC) at the minimum of 85 percent.

The funds available for (1) are determined by vote of Congress, and are likely to be based on the needs of the Allied Nations. Those for (3) likewise are determined by vote of Congress, which of late has not been in a mood to appropriate for such a purpose. The CCC can make loans up to the level of the announced prices, dispose of any stocks it acquires in any reasonable manner and absorb the losses out of its capital as long as it lasts. Probably CCC could sell some of its stocks to AMA. Buying and then selling at a loss later will have the same effect.

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[1] Agricultural Marketing Administration, which includes the former Surplus Marketing Administration.

There was a possibility, of course, that if the Secretary of Agriculture had not been required to approve price orders for farm products, the Price Administrator might have set ceilings below these announced prices. There was even some fear of this expressed by canners following the tomato announcement. However, Mr. Henderson had from the start agreed to the principle that prices well above parity might be needed in some cases. The chance for difference lay only in the application of the principle.

The actual ceiling limits within the Price Control Act are four in number, *whichever is the higher:*

(1) 110 per centum of the parity price for such commodity, adjusted by the Secretary of Agriculture for grade, location and seasonal differentials;

110 per centum of such comparable price adjusted in the same manner, in lieu of 110 per centum of the parity price so adjusted;

(2) the market price prevailing for such commodity on October 1, 1941;

(3) the market price prevailing for such commodity on December 15, 1941;

(4) the average price for such commodity during the period July 1, 1919 to June 30, 1929.

It is also provided here that comparable prices may be substituted for parity for any non-basic product except peanuts, whenever the Secretary finds:

> ". . . after investigation and public hearing, that the production and consumption of such commodity has so changed in extent or character since the base period as to result in a price out of line with parity prices for basic commodities."

The accompanying table gives meanings to the various possibilities as to floors and ceilings:

## Parity Prices and Alternative Ceiling Levels

| Commodity | Parity price | | | Alternative ceiling levels * | | | | |
|---|---|---|---|---|---|---|---|---|
| | Base price 1909–14 | Parity Mar. 15, 1942 | 85% of parity, Mar. 15, 1942 | 110% of parity, Mar. 15, 1942 (1) | Oct. 1 1941 (2) | Dec. 15 1941 (3) | July 1919–June 1929 average (4) | Actual price Mar. 15, 1942 |
| Wheat, ¢ per bu. | 88.4 | 130.8 | 111.2 | **143.9** | 93.4 | 102.2 | 132.5 | 105.1 |
| Corn, ¢ per bu. | 64.2 | 95.0 | 80.8 | **104.5** | 67.8 | 66.9 | 88.9 | 78.4 |
| Oats, ¢ per bu. | 39.9 | 59.1 | 50.2 | **65.0** | 39.4 | 45.2 | 47.4 | 51.9 |
| Barley, ¢ per bu. | 61.9 | 91.6 | 77.9 | **100.8** | 50.5 | 56.1 | 69.3 | 61.9 |
| Rice, ¢ per bu. | 81.3 | 120.3 | 102.3 | 132.3 | 92.9 | **143.9** | 126.0 | 168.6 |
| Potatoes, ¢ per bu. | 113.8 [1] | 104.7 | 89.0 | 115.2 | 65.8 | 82.7 | **124.1** | 103.9 |
| Sweet potatoes, ¢ per bu. | 87.8 | 129.9 | 110.4 | **142.9** | 90.2 | 86.6 | 134.4 | 100.2 |
| Beans, dry edible, $ per cwt. | 3.37 | 4.99 | 4.24 | 5.49 | 4.31 | 4.93 | **5.77** | 4.60 |
| Apples, $ per bu. | .96 | 1.42 | 1.21 | **1.56** | .86 | 1.09 | 1.46 | 1.30 |
| Cotton, ¢ per lb. | 12.4 | 18.35 | 15.60 | 20.18 | 17.04 | 16.23 | **21.47** | 18.06 |
| Cottonseed, $ per ton | 22.55 | 33.37 | 28.36 | 36.71 | **50.36** | 44.65 | 36.17 | 44.18 |
| Butterfat, ¢ per lb. | 26.3 | 40.4 | 34.3 | **44.4** | 37.0 | 36.0 | 44.0 | 35.7 |
| Milk equivalent, $ per cwt. | 1.31 | 1.94 | 1.65 | **2.13** | 1.94 | 2.01 | **2.13** | 1.93 |
| Eggs, ¢ per dozen | 21.5 | 26.1 | 22.2 | 28.7 | 31.0 | **34.1** | 33.2 | 25.8 |
| Chickens, (live) ¢ per lb. | 11.4 | 16.9 | 14.4 | 18.6 | 16.2 | 15.8 | **21.1** | 18.0 |
| Hogs, $ per cwt. | 7.22 | 10.69 | 9.09 | **11.76** | 10.59 | 10.21 | 9.77 | 12.34 |
| Beef cattle, $ per cwt. | 5.21 | 7.71 | 6.54 | 8.48 | 9.27 | **9.38** | 6.87 | 10.26 |
| Veal calves, $ per cwt. | 6.75 | 9.99 | 8.49 | 10.99 | 11.20 | **11.22** | 9.65 | 12.23 |
| Lambs, $ per cwt. | 5.87 | 8.69 | 7.39 | 9.56 | 9.75 | 9.86 | **10.98** | 10.36 |
| Wool, ¢ per lb. | 18.3 | 27.1 | 23.0 | 29.8 | 36.3 | **37.1** | 34.1 | 38.3 |
| Soybeans, $ per bu. | .95 [1] | 1.41 | 1.20 | **1.55** | 1.52 | 1.47 | — | 1.79 |
| Peanuts, ¢ per lb. | 4.8 | 7.1 | 6.0 | **7.80** | 4.45 | 4.79 | 5.8 | 6.03 |
| Flaxseed, $ per bu. | 1.69 | 2.50 | 2.12 | **2.75** | 1.74 | 1.78 | 2.34 | 2.37 |
| Tobacco: | | | | | | | | |
| Flue-cured (Types 11–14) | 22.9 [1] | 27.0 | 23.0 | 29.7 | **33.6** [3] | 33.5 [4] | 24.0 [2] | 28.1 [6] |
| Burley (Type 31) | 22.2 [1] | 26.2 | 22.3 | 28.8 | — | **29.6** | 22.3 [2] | 29.3 [6] |
| Fire-cured (Types 21–24) | 13.6 [1] | 12.5 | 10.6 | 13.8 | — | **14.8** [5] | 13.6 [2] | 14.0 [6] |
| Cigar leaf (Types 42–46, 51–55) | 20.2 [1] | 18.6 | 15.8 | 20.5 | — | **21.9** | 20.2 [2] | 15.8 [6] |

[1] Base prices: potatoes, 1919–28; soybeans, comparable price, basis 1934–38; flue-cured and burley, 1934–38; fire-cured and cigar leaf, 1919–1928.

[2] Seasons averages.

[3] Types 11–13 only.

[4] Type 11 only.

[5] Types 21 and 24 only.

[6] Season average.

* Highest ceiling in bold-face type.

It will be observed that 110 percent of parity gives the highest ceiling for wheat, corn and the several grains. This is because their costs of production have been greatly reduced since 1910–14. On the other hand, the years from 1900 to the World War brought low prices for livestock; range and forage were abundant. Over the decades, livestock prices have gained on grain prices the world over. The 1919–29 average therefore tends to give the highest ceiling for livestock and livestock products. It misses it a little in the case of hogs, beef cattle and veal calves, eggs and wool. For the last four, Ceiling 3 was provided, making use of the recent very high prices. Cotton and potato prices were high in the 1919–29 period. Hogs fare a little the better with 110 percent of parity. The October 1 ceiling helps cottonseed only. It got into the bill along in the fall when Mr. Henderson was talking about a general October price basis, and was never taken out. December 15 prices proved better later and were simply added as another alternative.

It would seem that if any reasonable period could have been chosen that would have given a higher ceiling than in the table for any product, Congress would have added it as another alternative in the Act. Only in the World War years were prices higher than these ceiling prices. Although this appearance is somewhat deceiving, as we shall discover later when we study the evolution of parity more in detail, there is the very definite suggestion in the array of ceilings offered, and in the provision that only the highest is to be taken, that changes in the "character" and "extent" of production and consumption are intended to be recognized only when they provide a basis for raising the ceilings.

The gaps between the 85 percent Steagall price bottoms and the ceilings provided in the Price Control Act are very wide. This means that the market forces have a wide zone within which to play in case they push prices anywhere above the 85 percent level. With no curbing, they could raise the prices of farm products at the farm to about 20 percent above parity, and 21 percent above prices of March 15, which would add a good deal to the cost of living and to a demand for higher wages. Secretary Wickard has said that he will do what he can to prevent such a movement. It is ordinarily assumed that by his phrase "not much above parity" he had in mind, in his Atlanta speech, not to exceed 2 or 3 percent. Even with farm prices kept at parity, it will be remembered that they can still spiral upward, provided the prices farmers pay continue their advance, as they are likely to do in some measure at the best.

As Secretary Wickard intimated in his Atlanta address, some farm prices are already too high. In the first two months of 1942, he released 600,000 bales of cotton. Under the law, the maximum amount which he can release in any month is 300,000 bales; in any year, 1,500,000 bales. He could sell additional amounts under Lend-Lease, however, and also could make contracts with mills for manufacture of army and navy requirements. The effect of these releases surely has been to push cotton prices down somewhat. How long such control will be effective depends upon the yield of next year's crop and the demands on the stockpile.

The releases of wheat for livestock feeding, at a price around 90 cents a bushel, do not lower the general wheat price level. They may, instead, cause it to rise somewhat because of reducing the size of the stockpile. But CCC sold 30 millions in the open market in January and February, at a price 15 cents per bushel over the 1941 loan rate of $1.15 per bushel. This seemed for a while virtually to establish the level of wheat prices. But when the government recently discontinued its selling temporarily, wheat prices actually dropped! A short crop of wheat next year could also make this form of control ineffective.

The government now actually owns only 90 million bushels of corn. (March.) It sold 50 million bushels in January and February, lowering the price thereby about 10 cents per bushel. Government-controlled stocks of corn, owned plus covered by loans, were 340 million bushels in April of this year as compared with 520 million bushels the year before. It is obvious that this control will end before long unless the Secretary of Agriculture calls the loans on the 250 million bushels now in farmers' hands.

The government also has considerable control over the price of flue-cured tobacco. When British buying fell off in 1939, the CCC financed the packing of the crop and is now selling it to the British under Lend-Lease.

With these three products, the power of Secretary Wickard to check rises in the prices of farm products largely ceases. Hog prices have been well above parity since July 1941. Lend-Lease buying contributed in part to this. One week in February the bids were rejected and a telegram sent to the meat packers indicating that the Department of Agriculture considered the bids too high and intimating that it would refrain from buying till the price got in line again. The market broke somewhat the next day. But the government cannot stay out of the market very long if Lend-Lease needs are to be met.

The ceiling set on pork on March 11 fixes prices until May 21 only. The prices on March 3–7 used as a ceiling were apparently somewhere above the 110 percent of parity level.

Secretary Wickard's main reliance appears to be on the expansion of agricultural output this year to a point where it will at least help to undercut any pronounced price advances. His expansion program is a worthy undertaking and needs the nation's unstinted support. We and our allies are going to need the food and fibre. Any part of them that is left over will have a beneficial effect in holding prices in line. But in view of the desperate needs facing the United Nations, no great help can be expected from these sources, especially if Lend-Lease requirements are increased.

Thus far the emphasis of Secretary Wickard has been upon keeping down feed costs to livestock producers. This position was taken very definitely in his St. Louis address on February 2. As to his reasons for this, we quote him exactly:

> "The price of corn has much more effect upon consumer prices than do the prices of wheat and cotton. A few cents difference in the price of a bushel of wheat has very little effect upon the price of a loaf of bread. A moderate rise in the price of cotton has a very little effect on the price of your shirt. But a comparatively small increase in the price of corn may result in rather significant price increases for milk, meat, and poultry products. Keeping the price of corn at around 85 percent of parity during the war may mean savings to consumers of hundreds of millions of dollars in the costs of food.
>
> "Ever since the program of increased food production began last spring, we have been releasing government-owned stocks of corn at prices equivalent to about 85 percent of parity, the price level on which the loans on the 1941 crop are based.
>
> "We are releasing the corn at these prices because we want to make it possible to increase the production of meat, poultry, and dairy products without pushing the prices of these products much beyond parity. When we asked for more production a year ago we promised producers they would be protected from high feed

costs through our sales of government-owned corn. As all feeders realize, corn is the basic feed grain, and prices of all feeds are closely related to corn. This sales policy has helped us get the additional food and feed that are so vital for complete and total victory. If we were to raise corn prices to parity, the prices of livestock, meat and dairy products would go up too. The resultant increase in living costs would mean demands for higher wages and so on up the spiral that leads toward inflation.

"So important is feed in this whole picture that we're also selling wheat for feed. We're selling it at a price which is comparable to corn for feed. We recently announced that we would sell 100 million bushels for feed purposes, and we stand ready to sell more as quickly as feed purchasers will buy it."

The difference between parity and the 85 percent of parity for corn and wheat, the Secretary explains, is to be made up by direct parity payments. In support of this, he quotes directly from the President's budget message to Congress: " 'The Secretary (of Agriculture) is authorized to make such additional commitments or incur such additional obligations as may be necessary in order to provide for full parity payment.' "

But Congress has another mind on this subject than the President and the Secretary of Agriculture, and the House attached a rider to the annual appropriation bill for the Department of Agriculture, to the effect that all sales or distributions of products from the "granary" must be at parity prices. This provision is now in committee in the Senate, and may remain there for some time. Or when it comes out it may permit the use of grain for feed at below parity levels.

*Agricultural prices seem to be getting into the same position that steel and other metal prices have been from the beginning of the defense program—a position when in the national interest they must* *be kept from rising in the face of a sharply rising demand. Nothing but vigorous price control can do this. Ceilings 20 percent above parity that prove to be real ceilings will contribute much to inflation. Can the Secretary of Agriculture, with the powers now at his command, deliver on his promise to keep farm prices very near to parity? Can the Price Administrator do much about it under the act that has been saddled on him? These are questions to which the forces that determine public policy are now finding an answer. President Roosevelt's message to Congress on April 28 asking that the Price Control Act be amended to permit ceilings on farm products at 100 percent of parity brings the issue squarely to a head.*

## CHAPTER V

# *THE EVOLUTION OF PARITY*

Not until the reader has clearly in mind the manner in which Parity was brought into the agricultural reform movement, and later became the basing point for much of the administration of the New Deal agricultural programs, is he in position to sense the full significance of the issues about to be analyzed. This chapter will attempt to fit into a moving panorama the forces, institutions and personalities that have brought the parity issue to its present stage.

In its inception, the parity idea had two origins. If there never had been any statisticians collecting data on prices of farm and other commodities, there never would have been any "farm parity." On the other hand, the parity movement is merely the outward expression of a maladjustment in the relation between agriculture and the rest of society which came at the end of the last war. The parity concept was introduced into the discussion of these maladjustments at a conference on agricultural policy called by Secretary Henry C. Wallace in the winter of 1922. The name given it then by Mr. George Peek was "fair exchange value." The first McNary-Haugen bill spelled out very carefully the method by which the amount of the inequality of purchasing power of farm products was to be measured, and how this inequality was to be dispelled. Mr. Peek, in his pamphlet "Equality for Agriculture" privately printed in 1922, defined "a fair exchange value for any crop" as "one which bears the same ratio to the current general price index as a ten-year pre-war, average crop price bore to average price index, for the same period." According to the illustration he used, wheat should be $1.60 a bushel in 1922, as compared with $1.02 in a ten-year base period, because the 1922 general price index number was 152 as compared with 97 in the same base period.

* * * * *

Mr. Peek got the statistical bearings for his idea in USDA Bulletin 999, *Prices of Farm Products in the United States* by George F. Warren, published in August 1921. Professor Warren had been going about the country presenting a varicolored chart showing the separate price movements for 20 farm products, the movement of the weighted average price for 31 farm products, and the movement of the "all-commodities" index of the Bureau of Labor Statistics. The all-commodities price movement was explained as due to monetary factors and the individual-commodity price movement as due to conditions of supply and demand for that product. Professor Warren was asked to come to Washington and put his chart and explanations into a government bulletin. The ratio of prices received by farmers to the all-commodities wholesale price index was designated as "the purchasing power of farm products." The farm price series was a weighted average, the relative production of different crops and livestock products reported in the 1910 census being used as weights.

The United States Department of Agriculture began publishing a purchasing power index series currently in *Weather, Crops and Markets* in March 1922. Prices in 1913 were called the base, or 100. The 1921 annual figure on this base was 61 as compared with 111 in 1918. This much had the "exchange value" of farm products fallen away since the war peak.

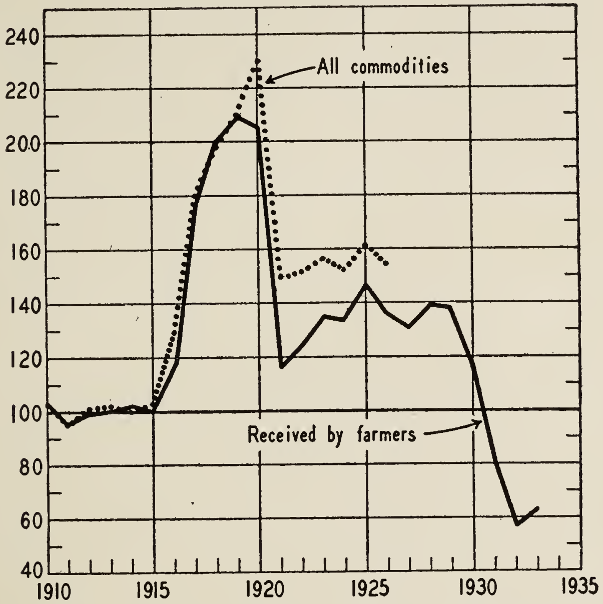

Chart I. *First Published Index Numbers of Prices Received by Farmers; also Index Numbers of all Commodities at Wholesale.*

(1910–14 = 100. Farm prices based upon 1918–23 weights; wholesale prices upon 1919 weights. The latter index is that of the Bureau of Labor Statistics)

In 1924, it was possible to shift the weightings to use the new 1920 census data, an average of the years 1918–23 being taken to smooth out the irregularities in crop yields of single years. This had the effect of reducing the amount of apparent disparity, since the farm products whose prices had risen most had increased most in output and hence in the weighting. Chart I shows the farm price index series calculated in this way, set in contrast with the all-commodities wholesale price series published by the Bureau of Labor Statistics. The spread between those two series was said to measure the "disparity in purchasing power of farm products." Mr. Peek wanted to bring these two together. Then there would be a "fair exchange value" between farm and other products. The series shown in this chart were the statistical bases for all the agitation for price adjustment legislation during the whole McNary-Haugen period from 1923 to 1929. The disparity, or purchasing power ratio, was 77 in 1921, but had narrowed to 91 by 1925.

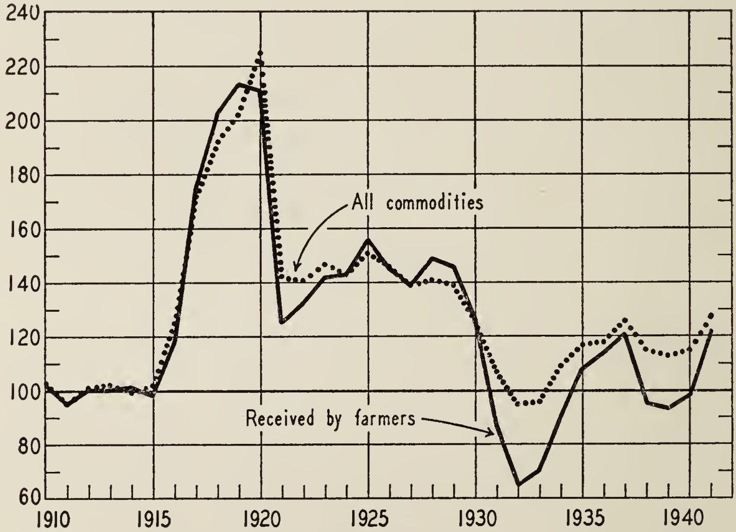

CHART II. *Second Series of Index Numbers of Prices Received by Farmers; also Index Numbers of All Commodities at Wholesale.*

(1910–14 = 100. Farm prices based upon 1924–29 weights, wholesale prices upon 1927–29 weights)

It narrowed still more in the next few years. In fact, when the next revision was worked out, with average farm production in 1924–29 used as weights, and average 1927–29 production as weights for the all-commodities series, the parity ratio appeared at or above 100 from 1924 to 1929, as shown in Chart II. Again the farm products whose prices had risen most had increased most in output—notably such items as dairy products and tobacco. But this revision was not released until September, 1934.

In the meantime, it had been recognized that farmers spend little of their income in wholesale markets, but most of it in retail markets, and that retail prices had been relatively high since the war as compared with wholesale prices. Accordingly a special index had been under construction for the prices of commodities actually bought by farmers mostly in retail markets. This was released in 1928 as the index of "prices paid by farmers." Chart III shows this index in parallel with the original index numbers of prices received by farmers as given in Chart I. The parity ratio in these terms was 74 in 1921, and still 89 in 1929. Here was new thunder for the McNary-Haugenites.

The new index for prices received, released in 1934, had been under construction for some time. At the same time, the index of prices paid was being brought up to date by introducing as weights the 1924–29 quantities of things bought by farmers. These two series are highly important because the 1933 Agricultural Adjustment Act was administered in terms of these from the beginning. They were near enough to completion for use in the summer of 1933. Chart IV presents those two series. The 1921 parity ratio here is 82, that for 1925 is 99, and that for 1929 is 95. But the new depression had widened it to 61 by 1932. The two series were brought fairly close together from 1925 to 1929 because farmers were in these later yearsbuying more of things whose prices had declined considerably—automobiles, for example.

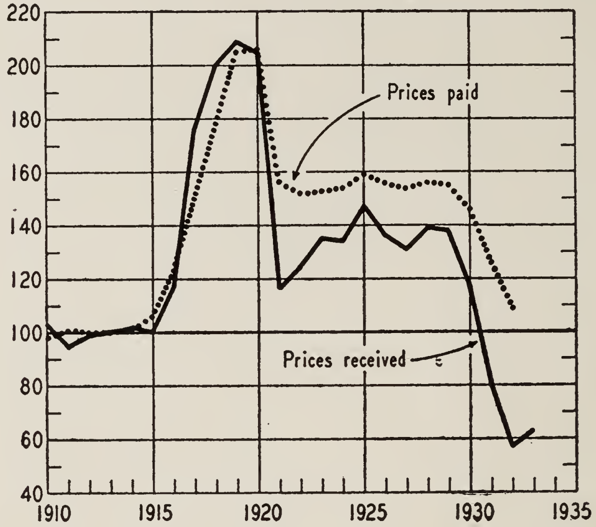

CHART III. *First Index Numbers of Prices Paid and of Prices Received by Farmers.*

(1910–14 = 100. Prices received are based on 1918–23 weights; prices paid, upon 1920–25 weights)

Perhaps by this time, some readers of this chapter will find their heads in a maze. Of what use can statistics and index numbers be as a guide if, by juggling weights and the like, a 1921 parity ratio is first 61, then 77 in Chart I, then 74 in Chart III, and finally 82 in Chart IV? First it must be made clear that none of these changes was made deliberately to make a case for or against the farmers. Statisticians cannot be blamed when economic facts change. If automobiles and tractors come into much greater use, or cigarette tobacco, the statisticians can do nothing honestly and scientifically but record the effects of it in their index numbers. They must do their best to keep the index series abreast of changing facts. Some critics of the farm program in the last two years have openly charged the Department of Agriculture with failing to provide for economic changes in their index series. It should be obvious that this is not true. A case might be made for its not doing so promptly enough, or fully enough, but that is all.

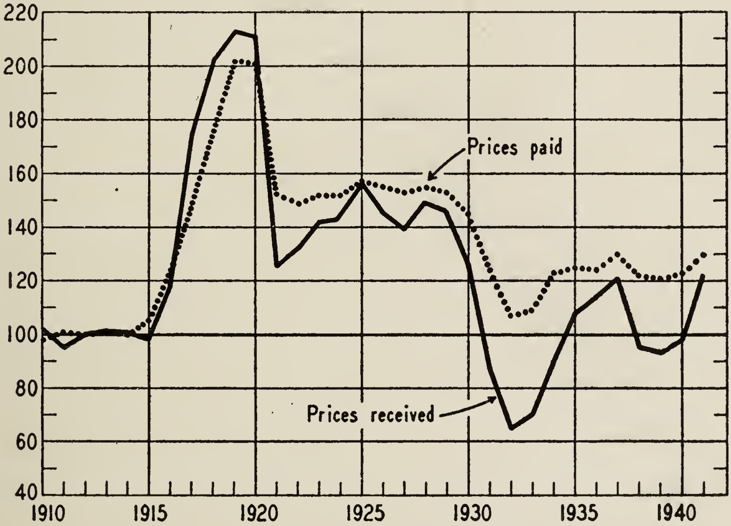

CHART IV. *Second Index Numbers of Prices Paid and Received by Farmers.*

(1910–14 = 100. Both based upon 1924–29 weights)

Second, the shift from a wholesale to a retail price basis was thoroughly in keeping with the facts. It is merely unfortunate that retail prices could not have been used in the first place in Bulletin 999.

* * * * *

The first McNary-Haugen bill, introduced in 1924, was defeated in the House. The second and third bills, still containing the "fair exchange value" principle, but stated in more general terms, were passed by Congress in 1927 and 1928, but were vetoed by President Coolidge. In the thinking of Mr. Peek, of Chester Davis—who was Mr. Peek's field general during most of the McNary-Haugen campaign—and of Mr. Charles J. Brand and others who helped formulate the proposed legislation, the parity idea was its vital principle. Mr. Peek tied up his ideas of parity with foreign trade. He was a staunch Republican and wanted farmers to get the equivalent of tariff benefits on export farm products. This would, as he said, just be an extension of the principle of the protective tariff—protect export products as well as import products. Tariff duties should equalize the differences in costs of production between the home and foreign country. If they did, and prices could be made to rise to the full tariff-duty level by forced sale abroad of the export surplus, then the farmers would get cost of production. Such duties would at the same time necessarily equal the amount of disparity in purchasing power; hence the farmers would by definition get full equality in exchange. Indeed a whimsical bit of reasoning for a trained economist! But Mr. Peek, and he was very grateful to his Maker for it, was not that kind of creature.

Nevertheless, of such stuff was the McNary-Haugen dream made; and although not much was said of fair exchange value as such in the debates on the later versions of the bills, its rootstocks were everywhere in the fertile soil of agricultural discontent of those years. The computation of the ratio of prices received for farm products to prices paid for goods bought had become an established ritual in the Department of Agriculture—and continued as such even in the Hoover Administration! Why he ever let that get by has never been adequately explained. Maybe it was because he was a mining engineer.

Even Mr. Roosevelt had to set up some kind of plausible level for prices of farm products. He could not provide the more abundant life for his farmers with no limit whatever on the abundance. The practical choice confronting the new lawmakers was between fair exchange value and "cost of production," which always has a strong following among farmers and even among business men. The Hope-Norbeck bills developed for use in the Roosevelt campaign, mainly by M. L. Wilson, took up fair exchange value as the safer basis. By that time, the farm leaders had learned ways of talking about it that had farmer appeal. The term "parity" was coming into general use. But even at that, parity just nosed out cost of production by a whisker in the final votings in the Senate in the spring of 1933, Senator Norris leading the fight for the latter.

The first two administrators of the AAA, George Peek and Chester Davis, were almost as if by definition, devout worshippers of the parity principle. Davis now preached it from one farm's end of the land to the other—from every rostrum he ascended, in every AAA circular and press release. Likewise Secretary Wallace, until he discovered his own little Moses in the bulrushes of Egypt—"the ever-normal granary." The principal farm organization leaders also soon found parity a good rally call with their members, and congressmen with their voting constituencies. Around this standard, the beleaguered farmers now marshal their forces in their long struggle for economic "equality and independence." Seldom does any presentation at a congressional hearing on agriculture get by the quarter hour before some member wants to know what bearing the proposal has on parity for the farmers. Not without doffing in obeisance to parity does a speech on agriculture get really going on the floor of either house. There was once a farm organization that wanted "cost of production" instead of parity. Now it asks for "whichever is the higher," which is parity in most cases so far as can be figured.

* * * * *

The Agricultural Adjustment Act of 1933 contained a clear statement of the intent of Congress to:

> ". . . reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period. The base period in the case of all agricultural commodities except tobacco shall be the pre-war period, August 1909–July 1914. In the case of tobacco, the base period shall be the post-war period, August 1919–July 1929."

But the actual drafting of the Act was mainly in the hands of a non-political group containing persons who knew that no device as crude as an inflexible application of the parity ratios in terms of a 1910–14 base uniformly to all products could be made to work in such a way as to achieve the declared goals. Accordingly they carefully instructed the administrators of the Act:

> "to approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as is deemed feasible in view of the current consumptive demand in domestic and foreign markets."

If tobacco wouldn't fit into the 1910–14 base period mold, because of changed conditions of production and consumption since then, it was highly improbable that all the others would. Hence flexibility was highly necessary.

At the outset there were two ideas as to how parity for any product was to be attained. Mr. Peek wanted to call in the processors and handlers and coax them into a "marketing agreement" in which they would contract to pay the producers flat parity, and not worry much over any "surpluses" that might ensue. Mr. M. L. Wilson, Mr. Davis and others believed the important need was to stabilize production at a level that would support the parity prices—or rather to move in that direction as rapidly as was possible. A Peekian agreement was worked out with the tobacco processors—but only after the growers had voted a promise to accept production quotas the next year. Mr. Roosevelt decided in favor of production adjustment for the basic crops and Mr. Peek stepped out.

There was argument also as to whether the parity intended was not fundamentally parity of income rather than parity of prices. The language of the original act was specific in terms of prices, but mentioned income also. After all, wasn't it the purchasing power of the farmer's total income that must be raised to its pre-war level if they were to have parity?

The next shifts in the legislation were in the direction of income parity. In 1935, provisions were made for bringing interest and tax payments per acre into the equation. It was being said that it wasn't enough to give the farmers price equality, that interest and tax bills had mounted out of all proportion to prices because of growing indebtedness and the expanding volume of support needed for roads, schools and the like. Chart V shows in general what the addition of interest and taxes did to the parity ratios. They were lowered considerably in the 1920's but not very much afterwards. Tax and interest payments managed somehow to come down during the depression years of the 1930's.[1]

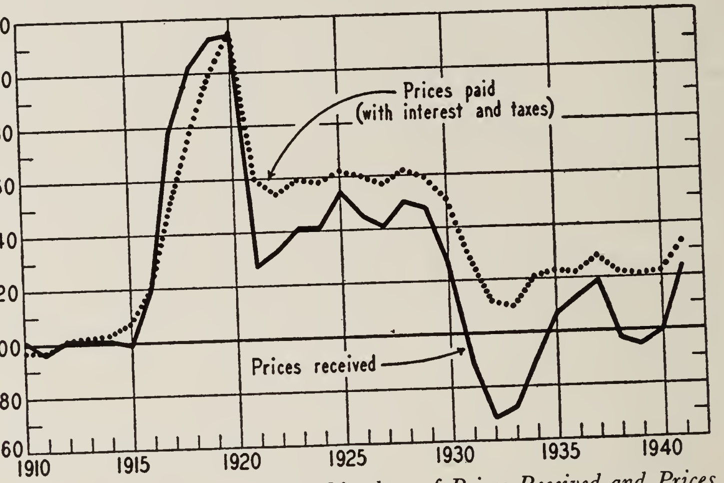

CHART V. *Latest Revised Index Numbers of Prices Received and Prices Paid, Including Interest and Tax Payments, 1935–39 Weights.*

(1910–14 = 100)

Then in the extensive revision of the Act in 1936, after the contrary court decision in the Hoosac Mills case, the parity basis was shifted over almost entirely to income—to a comparison of the purchasing power per capita of the farm population with that for the total non-farm population, still as against the 1910–14 base period. But figuring out this kind of a parity income called for much data that the Department of Agriculture had never collected. And long before the collecting and figuring was done, the farmers in Congress again were hard on the lagging heels of parity prices. Prices of farm products slumped badly again after 1937. The congressmen did not want to hear any more nonsense about equalizing incomes—what they wanted was a proper price for their cotton and corn. If they got that, income would take care of itself.

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[1] Freight rates were also added in the 1938 legislation, but the statisticians pointed out that these were automatically included in the index numbers of prices paid.

The only places in which parity income is left in the present legislation is in the inclusion still of tax and interest payments, and in the provision that the "parity payments" —those general lump sums of $200,000,000 or more annually that Congress has voted since 1938 to make up for the failure of prices to rise to parity—shall be distributed among the five basic products in proportion to the amounts by which their producers fail to realize "parity income," determined by taking into account the volume of their output times their parity price.

Also a paragraph in the 1938 legislation redefines parity income in more workable terms, as follows:

> "'Parity,' as applied to income, shall be that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August 1909 to July 1914."

* * * * *

By now any index numbers based on relative volume of production away back in 1925–29 are of course out of line with present realities. The relative importance of cotton, for example, has greatly declined. The Department of Agriculture statisticians have accordingly been at work revising this index series to use the 1935–39 weights. The index of prices received is raised a little by the shift to the new weights—2 points in 1938, 1939 and 1940. The index of prices paid, in turn, is lowered 3 points in these years. Much of the reduction in the latter index is the result of a belated inclusion of proper weighting for power machinery and fuel oil. The combined effect of those two shifts, one up and the other down, is to raise the parity ratio an average of 4 points for the years 1938–40. Including interest and tax payments, as required under the present acts, lowers the parity ratios an average of 3 points for these years.[1] Chart V is in terms of the final form of the parity ratios as they should now be used.

The Department of Agriculture, however, has not come to the point of releasing these ratios currently in *Crops and Markets* and *The Agricultural Situation.* They would have the effect of lowering parity prices by around 4 percent. It will be apparent that this is entirely consistent with the facts, and with practice in the past, but there are men in Congress and out who do not understand index numbers and parity, and who are naturally uneasy about what they do not understand—as was a bulldog named Muggins, once in the writer's family, who would pitch into any dog twice his size, but would bark and whine all night long at a peculiar fluttering shadow made by the moonlight, the wind, and the waving branches of a big tree on a slope facing the house.

The March index of prices paid, including interest and taxes, based on the old weightings of 1925–29, was 146. This is multiplied currently into the average prices of each product in its designated base period—1910–14, 1919–29, or what not—to get the current parity price. Thus 146 × $.98 gives the current March parity price for wheat, $1.43. If the new revised index were used, the current parity price would be $1.40.[1] According to the old series, farm prices have been above parity most of the time since September, 1941. According to the new one shown in Chart V, they have been above parity all the time since July.

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[1] Interest and tax payments carry a weight of 11 out of 100 in the index of prices paid.

Many have urged that wages of hired farm labor should be included in the index of prices paid by farmers. To have done so would have lowered that index slightly in 1938–40. In recent months, however, it would have raised it a point or two. Farm wages are a third higher now than they were last spring; and had already risen somewhat a year ago. These are national averages, of course; in defense areas the military program has had more pronounced effects.

* * * * *

Several groups in this country—notably the cotton producers and in some measure, the dairy farmers—have not prospered as greatly as others since 1933, in spite of the bounties offered by the AAA program. In later chapters, X and XI, the whys and wherefores of this will be spelled out in detail. An early result of this was the provision already noted for supplementary "parity payments" and for distribution of these in part according to a formula that would insure cotton growers a sizable though restricted fraction thereof.

The burley and flue-cured tobacco growers helped themselves out again by getting Congress, in November, 1940, to shift the base period from 1919–29 to 1934–39. The effect of this upon parity prices is indicated by Chart VI.

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[1] To compute parity price from index numbers, one needs to understand something about how index numbers are made. The number for the base year of such series is always 100. This makes it possible to look upon the other numbers as percentages of the base-year number. If the base period is several years, as 1910–14, then the numbers average 100 for these years.

In computing current parity price for tobacco, with the base period 1919–29 in use, it is the ratio of the current index number of prices paid to the average of the numbers from 1919 to 1929 that is multiplied into the base period price of tobacco.

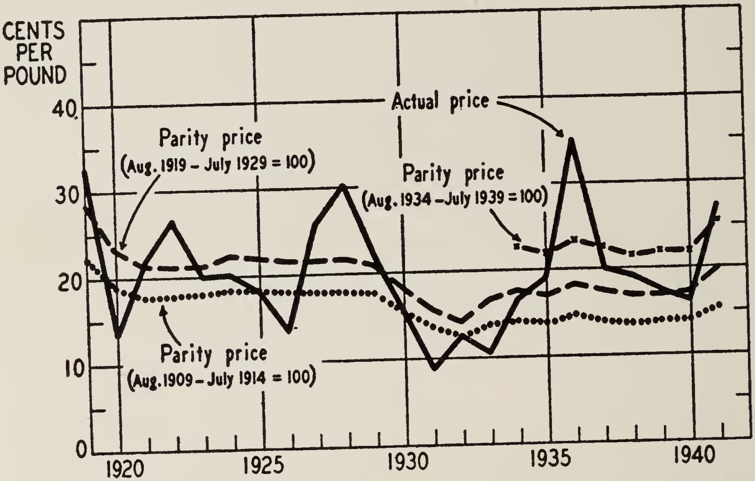

CHART VI. *Parity Prices for Burley Tobacco According to Three Different Base Periods.*

(For years beginning October. From *The Tobacco Situation,* September 1941, with preliminary figures for 1941 added)

The groups selling market milk had secured an even more liberal charter under which to juggle parity, in a revision of the marketing agreement part of the AAA Act in 1937. Whenever the statistics for a market do not go back to 1910–14, the post-war period 1919–29 can be used as a base,

> "or all that portion thereof for which the Secretary finds and proclaims that the purchasing power of such commodity can be satisfactorily determined from available statistics of the Department of Agriculture."

Moreover, it was further provided that whenever parity prices so determined

> "are not reasonable in view of the price of feeds, the available supplies of feeds, and other economic conditions which affect market supply and demand for milk and its products in the marketing area to which the contemplated agreement, order, or amendment relates, he shall fix such prices as he finds will reflect such factors, insure a sufficient quantity of pure and wholesome milk, and be in the public interest. Thereafter, as the Secretary finds necessary on account of changed circumstances, he shall, after due notice and opportunity for hearing, make adjustments in such prices."

Nominally this provision covers all products under marketing agreements or orders, but it was obviously meant for the milk producers. For the principal milk markets, the needed 1919–29 milk price data are available, though not always for Class I, Class II and other classes of milk separately.[1] Parity price is figured by the Department of Agriculture for each class of milk separately, but also as a check in terms of the "composite" or "blended" price. Computed in this second way it may run above or below a weighted average of the separate class parities. The Department does not attempt to keep milk prices exactly at parity figured either way. It assumes that the conditions of supply and demand which it is instructed to take into account should work either way, justifying less than parity as well as more than parity.

This latter, of course, was not really in the minds of those who drafted the covering provision, and is proving rather difficult for some of them to accept. Demands for price increases have arisen recently in most of the markets under federal agreements,[1] even though supplies of milk have tended generally to increase more rapidly than consumption. The spokesmen for the milk producers have commonly asserted that their constituents are expanding their output only as a short-run response to patriotic appeals for more milk, and that they cannot afford to do it long. The evidence in support of this contention is by no means always conclusive.

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[1] Class I milk is that which is consumed as fluid milk, Class II ordinarily that which is used as cream or converted to other product uses. The New York market, however, has ten classifications of uses of milk.

When this book went to press, price increases had been granted in 16 markets under federal orders. Prices had been advanced in 3 others by industry agreements without amendments to orders, as also in effect in the 6 markets under licenses.

* * * * *

These liberalizations of parity did not reach all the dissatisfied commodity groups, and in the summer of 1941 the cotton and dairy legions began storming the fortress with great guns, urged on by the rising levels of wages, non-farm as well as farm. Senator Thomas got himself appointed Chairman of a subcommittee to inquire into the whole subject of parity. What he really wanted was a general shift to a 1926 base for all products. Cotton prices were very favorable then. In October he called a large and divergent group of farm leaders together in Washington to help him, including the state commissioners of agriculture —a body of men ordinarily taking little part in national agricultural affairs. Parity held high court, but a noisy one. The talking was wilder and looser than the representatives of some of the more substantial farm organizations could altogether stomach. Parity was all they had been asking for, and here were men wanting parity and a quarter. The following extracts from the authorized press release issued following this conference, are significant indeed:

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[1] Technically most of the markets are under "orders," and a few are under "agreements" or "licenses."

> "We, the assembled farmers and farm representatives of thirty-seven states, meeting together in the city of Washington, District of Columbia, for the purpose of aiding and protecting agriculture, hereby declare our avowed determination to secure for the farmer of this nation his proper relationship with other branches of organized society by demanding for raw materials, which he has to sell, prices that will insure the above-mentioned parity relationship.
>
> "Further, we do declare our intention to resist any attempt by any official, or group of officials, in our government who by act, or statement or otherwise affect the interest of agriculture adversely, until such a relationship as we deem essential to our own welfare has been established.
>
> "In this crisis our government is calling upon many industries and certain branches of agriculture enormously to increase production. Either by price, contract or otherwise, industrial plants are being indemnified against loss on operation or expansions. We hold that the same principle should apply to the individually-owned farm.
>
> "Recent price rises of agricultural commodities have been both normal and needed, if farmers are not to break under the heavy load of national defense. They still lack much in restoring the economic balances among groups or giving farmers a fair share of the national income.
>
> "Our deliberations have revealed a common objective as to parity. While present parity operations have aided agriculture's status, we still desire to improve its legislative and administrative application so that farmers may obtain their rightful share of the national income. But we have also discovered that the same legis-

lative parity formula may not always operate equitably for all commodity groups. We have therefore agreed that the present method of computing parity, as prescribed by law and administrative action, should be modernized for those commodities that cannot be priced adequately by the old method, and that the exponents of new parity methods should, at this juncture, present their proposals immediately to the Congressional Committee concerned with this problem."

The dairy group at this meeting presented a proposal to shift the base years to 1920–29—the series of years when dairy product and cotton prices were unusually high—and also to tie parity prices onto industrial wage rates. They pointed out that the index of prices paid by farmers was based half on supplies used by farmers in production and half on goods used in family living. It was all right to base the first half of parity prices on prices paid for supplies. But the family living part of it should improve over the years, just as had the living of the city workingman since the World War along with his much higher real wages. It couldn't do this unless real farm income rose as much as real wages. Parity as now figured, they argued, tends to freeze the farmer's standard of living at its pre-war level. Hence the proposal was to base parity one-half on the index of industrial wages, which in July, 1941, stood 45 percent higher than its 1920–29 average. The effect of this would have been to raise parity prices for corn only 3 percent, and for wheat 15 percent; but parity prices for cotton by 34 percent, for butterfat by 39 percent and for wool by 57 percent. It was a proposal that would have left high the parity prices that were high by the now existing standard—those for corn and wheat—and raised greatly those that were too low according to the existing standard. None lowered; some raised greatly!

As the Price Control Act of 1942 was being drafted and debated in the House, provision was inserted, under the leadership of Congressman Steagall, for setting the ceiling, first, at nothing lower than 110 percent of parity, using whatever base period is provided for the different commodities; then later under the Brown Amendment, for substituting, whenever higher, the average of 1919–29 prices, without any regard to the purchasing power formula; and in due time, the October 1 and December 15 prices. In this form the bill went to the Senate as HR 5990 on January 10, 1942.

In the Senate, the dairy group proposal to include industrial wages in parity, after being toned down to give the wage item a weight of only one-fifth instead of one-half when the index base was shifted back to 1910–14, was introduced and passed as the O'Mahoney Amendment. As in 1921 earlier, the dairy group joined in alliance with the western wool-growing interests, who stood to gain very greatly from it. Senator O'Mahoney votes in Wyoming. The O'Mahoney Amendment, according to O'Mahoney's own figures would have raised the ceiling on wool prices to 37 cents a pound, as compared with a 110 percent parity of 29 cents; the ceiling of butterfat to 45 cents as compared with 42 cents; that on wholesale milk to $2.91 per hundred as compared with $2.08. Comparable figures for hogs are $12.35 and $11.44; for wheat, $1.46 and $1.40; and for cotton, 20.0 cents and 19.6 cents. Parity prices in January called for an index of prices received of 144; 110 percent of parity for an index of 158; and the O'Mahoney Amendment, according to his testimony, for an index of 172,[1] or 120 percent of parity.

As will be remembered, President Roosevelt vigorously protested the O'Mahoney Amendment, and it was dropped in the House-Senate conference. But this did not settle the issue of industrial wages *vs.* farm prices. The Farm Bloc did not retreat from its position. Nor did it respond with a cordial, "Yes, Mr. President—only too glad to help you out," when the Chief Executive in his April 28 message to Congress made the following formal request:

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[1] Congressional Record, Jan. 10, p. 235.

"For nearly nine years it has been the policy of the government to seek an objective known as 'parity'—or, in other words, farm prices that give the farmer an assurance of equality in individual purchasing power with his fellow Americans who work in industry. Some of the products of the farms have not yet reached the stage of parity. Others have exceeded parity. Under existing legislation a ceiling cannot be placed on certain products until they reach a level somewhat above parity.

"This calls for the second legislative action which I have mentioned. Under a complicated formula in the existing law, prices for farm products—prices which housewives have to pay for many articles of food—may rise to 110 percent of parity or even higher. It is the fault of the formula. In the case of many articles this can mean a dangerous increase in the cost of living for the average family over present prices.

"In fairness to the American people as a whole, and adhering to the purpose of keeping the cost of living from going up, I ask that this formula be corrected, and that the original and excellent objective of obtaining parity for the farmers of the United States be restored."

## CHAPTER VI

# *FARM PRICES AND INDUSTRIAL WAGES*

The reader will no doubt by now think that it is high time that we settle down to the task of actual analysis of the parity issue. Few are satisfied with a mere statement of contrary positions in an argument. They want to see at least an attempt made to evaluate them. This chapter and the three following go about such an assignment in logical order: the first, in terms of farm prices and industrial wages; the second, in terms of the annual incomes of farmers and wage earners; the third, in terms of returns to agriculture, labor and capital and the three shares in the national income; and the fourth, in terms of a comparison of farm and city incomes.

It is evident from Chapter V on the Evolution of Parity that the parity issue now centers mostly around farm prices and industrial wages. It was the fixing of wages by the Wage and Hour Administration in cotton textile mills and other industries in the South, at rates two or three times what cotton and tobacco farmers have customarily paid, and at three or four times what a majority of these farmers obtain for their own labor, followed by wages a half or more higher than these in near-by camp construction and war industries, that had most to do with the stirring up of the cry for 100 and 110 percent of parity. It was in the South that this movement originated. The recent effort to boost the level to around 120 percent of parity, through the O'Mahoney Amendment, was tied onto wages. The proponents of it may have been mainly looking for an argument that would appear to justify a higher price level for dairy products and wool, but at any rate it served their purposes.

Every thinking person recognizes that the parity which is fundamental is a parity of real income. For the farmers such a parity involves not only prices but also expenses and net income. For the wage-earner it involves not only wage rates but also amount of employment, and what he can buy with this dollar earned. The parity to be considered between farmers and capitalists involves not only the rate of net return upon invested capital, but the amount of such capital.

But the issue actually raised has been mainly in terms of prices and wage rates. Labor leaders have characteristically presented their case in terms of wage rates and hours, making no mention of the effect of their proposals on the annual earnings of labor. One therefore cannot chide farm leaders for voicing their demands in terms of prices only—it is in the price which he receives for his product that the farmer gets pay for his labor. Let us therefore begin our discussion in these terms. We can bring in the comparable annual income measure in the next chapter.

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Chart I shows exactly what has happened to the average of prices of farm products relative to the parity line, which is always at 100, using the series revised in terms of 1935–39 weights. The data are the same as used in Chart V in Chapter V, except that the ratios are given separately with and without tax and interest payments. The effect of including these payments is very slight in recent years, and from now on we will use only the price parity ratios.[1] Farm prices seem to have hovered just above parity since last July. In February, however, the index number of prices received dropped 4 points, and the index of prices paid rose 1 point, bringing the ratio down to 99, at which point it remained in April. A parity ratio of 100 means that a wagon-load assortment of farm products, representing in proper proportion the whole United States, would have bought, in the markets of the United States where farmers trade, exactly the same volume of goods and services of the sorts for which farm people spend their money, as would have been purchased for the same wagon-load in 1910–14, the years taken as a base for comparison, account having been taken of the fact that the goods and services now bought by farm people are not the same now as in the base year, and also that the assortment and proportions of farm products in the wagon-load are not the same.

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[1] Furthermore, the ratios are not strictly comparable with wage rates if

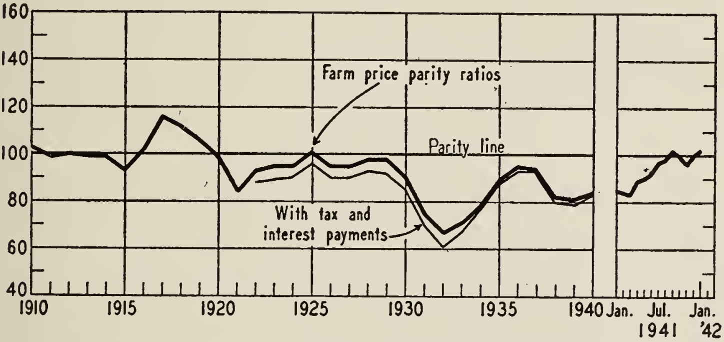

Chart I. *Farm Prices and Parity, With and Without Tax and Interest Payments. By Months Since 1941.*

(Parity = 100. Weights of years 1935–39)

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taxes and interest payments are included. Part of the reason for higher tax payments is that *more* and *better* roads and schools have been provided in the last decade or two. This is a *quantity* instead of a price factor.

In the between-war years, farm prices were definitely below parity, except in the year 1925. While the war was coming upon us in 1916 and 1917, prices received by farmers moved upward more rapidly than the prices they paid. Then in 1918, 1919 and 1920, the prices paid moved up the faster and the ratio between the two declined. In 1925–29, the ratios averaged near to the parity line again, but they sank to the low average of 71 in the 1931–33 depression years. The rapid recovery beginning in 1934 was halted with the business recession that set in after 1937.

* * * * *

What happened to urban wages during this period? Let's first take a look at them in Chart II in their crude dollar and cents terms, without any adjustment for changes in the general price level and cost of living. In the last war period, hourly earnings did not catch up with prices of farm products until 1918; they shot way above them in 1919, and came down only a little way in the depression of 1921–22.[1] This failure of money wage rates to decline along with prices in general, and farm prices in particular, has been a major event in the history of agriculture. It has meant that farmers have found themselves paying twice as much a day for carpenters and masons as before the war, and twice as much for many farm supply and equipment items.

The break in the early 30's was more severe than in the

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[1] The wage rate figures used in this chapter are not actual wages paid by the hour or day, but the "hourly earnings" obtained by dividing total payrolls by man-hours of labor performed. Much of this labor was upon a piece-rate basis. Just at present, overtime rates at time and a half have an important effect on hourly earnings.

Of more importance is the circumstance that these hourly earnings cover only manufacturing and probably a somewhat biased sample of this. Those reporting represent a major portion of industrial employment, but probably the more progressive part of it. It is possible that wages of all urban labor have not advanced as rapidly as indicated by the BLS hourly earnings data.

20's, but the recovery since has been at an amazing rate. Since 1937, the two series have actually been moving in opposite directions until just recently.

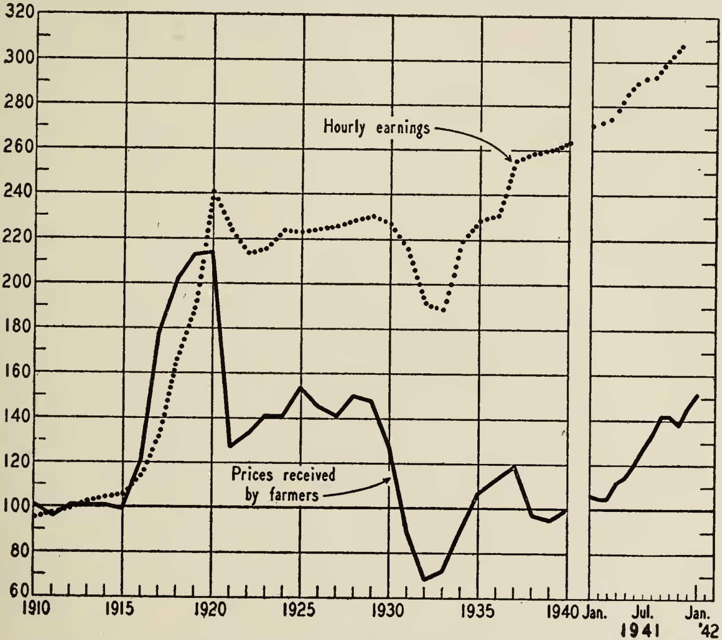

CHART II. *Index Numbers of Money Hourly Earnings of Industrial Labor and of Prices Received By Farmers. By Months Since 1941.*

(1910–14 = 100. *Monthly Labor Review* and *Crops and Markets*)

For converting these hourly earnings into purchasing power or parity terms comparable with the parity ratios for agriculture, the best series to use is a cost of living index. The urban worker's cost of living is a very near equivalent of prices paid by the farmers.[1] In Chart III, the Bureau of

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[1] The present BLS index of cost of living is in terms of weightings of the years 1934–36. It thus undertakes to provide for changes since 1913 in the goods and services bought, the same as does the index of prices paid by farmers.

Labor Statistics curves for hourly earnings and cost of living are drawn in tandem from their beginning in 1913 to date. Never once has the earnings index failed to keep above the cost of living index. It rose sharply above it in 1919, and again after 1933. The consequences of this produce a sharp contrast in Chart IV in which both the farm price and the wage parity ratios are shown against the parity line of 100.[1] There was the same rise in wage rates as in farm prices until 1920, but no such decline afterwards.

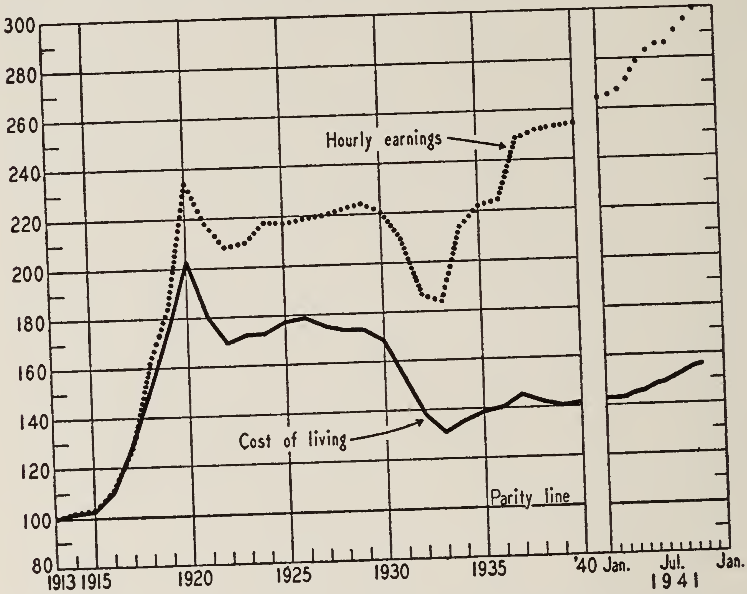

CHART III. *Index Numbers of Hourly Earnings and of the Cost of Living, Bureau of Labor Statistics. By Months Since January 1941.*

(1913 = 100. Weightings of cost of living index are as of 1934–36.)

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[1] Using 1910–14 in one case and 1913 in the other introduces no serious discrepancy, since 1913 wages were close to the average for 1910–14.

Neither was there a severe drop in the depression of the 30's. The end result was a wage rate parity index for 1940 of 180, compared with a farm price parity index of 84. The bold fact is that industrial workers have been able to hold virtually all of the high wage rates that came with the World War, whereas farm prices were far short of the World War levels in 1940. However, they were gaining on wage rates a little in 1941.

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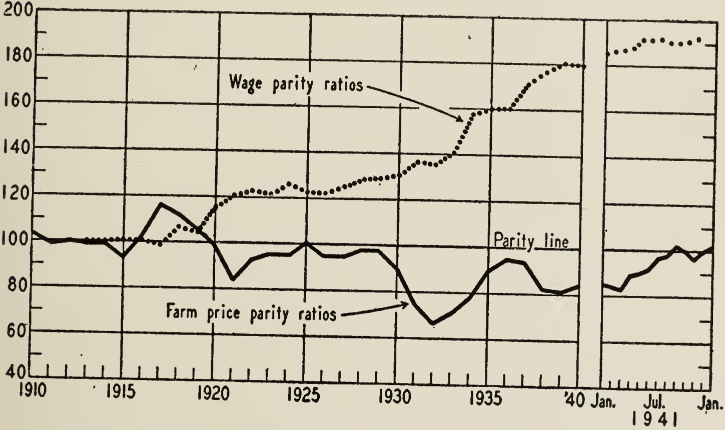

CHART IV. *Farm Price and Wage Parity Ratios Compared. By Months Since 1941.*

(Parity = 100)

Just to say, however, that farm prices have been below "parity" since the World War, and that industrial wages have been well above it, does not tell us which is too low. All that such a statement means is that one is high and the other low as compared with the base period, 1910–14. It might well be that they were in better relation to each other after the war than before it.

And indeed there is much to indicate that wages were unduly low in 1910–14. From the Civil War until 1896, real wages of labor in the United States increased at an average of 4 percent a year.[1] After that they flattened out into a plateau or bench, like a step on a stairway, for a stretch of 22 years ending in 1918. This is indicated clearly in Chart V, showing the course of "real" (purchasing power) wages from 1866 to 1941.[2] In the World War years the upturn was pronounced, as already noted in Chart IV. (This chart exaggerates somewhat the amount of change in the short run, since the price level always changes more quickly than the cost of living.)

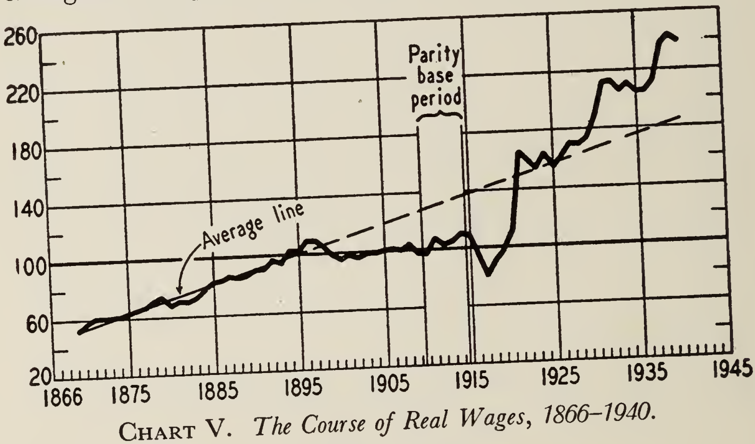

CHART V. *The Course of Real Wages, 1866–1940.*

(1890–99 = 100)

The leveling-off of real wages after 1896 until 1918 is an interesting exhibition. Professor W. I. King had noted it in his study of *Wealth and Income of the People of the United States* published in 1922. He wrote as follows:[1]

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[1] This and similar average percent increases presented later are percents of the beginning year.

[2] For this longer series, wholesale prices are used in computing purchasing power or parity ratios, because presently we want to make some comparisons with "real" prices of farm products, for which the "prices paid" series is available only to 1910.

> "From 1865 to 1896, the general trend of real wages was very steadily toward higher levels, except for temporary backsets. After 1896, the progress upward ceased, and since 1906, there are some suspicious indications of a general decline. The important feature is that the ascent has been checked, and this, right in the face of the greatest industrial development that the world has ever seen."

Dr. King attributed this leveling out, and temporary decline in 1915–18, to two things; first, an upturn in commodity prices so strong that money wages could scarcely keep ahead of it; and second, heavy immigration, especially from the low-wage countries of southern Europe, combined with the disappearance of our western frontier. There were no longer any new fertile areas to which the immigrants could go directly, or more important, to which could go the families which the immigrants were displacing.

However, the idea that the flattening-out in real wage rates in 1896–1918 was due to heavy immigration receives something of a jolt when one discovers Bowley pointing out that the same thing happened in Great Britain in the same years. It probably happened on the continent of Europe too.[2] Nourse and Drury of the Brookings Institution make a mild surmise to the effect that the "trustification" of society going on in this period may have enabled capital to take more than its share and keep wages down.[3] The author would look for it somewhere else. Many still about will remember the lively discussion of the high cost of living

[1] The Macmillan Company, 1922. Pp. 179–207. Professor King is now at New York University.

[2] *Wages and Income in the United Kingdom since 1860*, Bowley, A. L., 1937.

[3] *Industrial Price Policies and Economic Progress*, p. 17.

going on in the country during the Taft Administration. High tariff duties were frequently blamed for it. Even President Taft admitted that one of the important tariff schedules was "indefensible." In the election following, many industrial states in the East went Democratic. In perspective, it is now apparent what was happening: *wage rates were simply not keeping up with the price rise.* It was too fast for them. This was very noticeable in 1915–17. There were several reasons for it, among which the tariff duties must have been of lesser importance, since the same thing was happening in Great Britain.[1]

If real wages had advanced from 1896 on at the same arithmetic rate as before, they would have averaged 29 points higher on the index scale in 1910–14 than they were. However, they would have been 5 points lower than they were in 1925–29; and 40 points lower than they were in 1935–39. This is made evident in Chart V by the average line fitted to the years 1869–96 and then extended to 1940.[2]

The precipitous rise in real wages setting in in 1917–18 was induced by the rapidly mounting demand for war output, coupled with the drawing off of several million men into active military duty. It was continued in the period of secondary inflation just at the end of the war.

But why did not wage rates drop again with unemployment and lower prices at the end of the war? Four explanations are usually offered. One: they had remained too low merely as a matter of lag behind rapidly advancing prices of the 1896–1918 period, but once that lag was overcome by the drastic influences of the War, it tended to remain overcome. Indeed, the lagging tendency might now be operating in reverse on the way down. Two: wages commonly have stayed up after wars and similar upheavals. At other times, they have tended gradually to fall behind their true earnings level based on output per worker. It thus takes a war or the like to restore the worker's bargaining power. This explanation obviously has much in common with the first one. Three: the raising of immigration barriers in the early 20's kept out the usual hordes of cheap laborers. No doubt this was an important influence. Without checks, immigration would have been very heavy in 1920–25. Four: the power of organized labor. Most students of labor consider this to be a minor influence at that time.

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[1] My colleague Dr. Hans Staehle has called my attention to the possible application of the "long wave" theory to this question. According to this theory, long 40 or 50 year movements in economic activity develop, and in the latter half of these the wage rates tend to lag. The years 1896–1918 fit into the 1873–1920 cycle in this way.

[2] Fitted by the method of least squares.

The most important reason of all was probably still another, namely, that a period of industrial expansion and increase in technical efficiency set in, which on the one hand provided jobs for most of the workers, and on the other enabled them to earn the higher wages. Business was able to pay these wages and have enough earnings left over to support a wild stock market boom in the late 20's.

One other point must be introduced to get the full story on the course of real wages. If the average line fitted to 1869–1896 had been extended backward to the beginning of the century as well as forward, it would not have given a bad fit.[1] Extending the line forward to 1940 therefore seems warranted, unless we are ready to accept some general belief to the effect that the country is gradually approaching a static condition in which real wages will no longer rise. Of this we shall speak later. The steady gain through the last

[1] From 1840 to 1869, however, the trend in real wages is only slightly upward.

century is only America's part in a world-wide movement that came as a result of using more power and machinery in production and opening up the virgin resources of the Western Hemisphere, Australia and the rest of Africa.

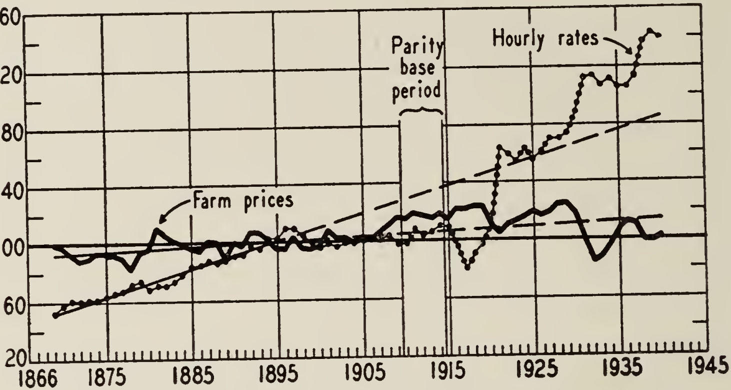

Chart VI. *Index Numbers of Real Farm Prices and Real Hourly Wage Rates, 1869–1941.*

(1890–99 = 100)

Chart VI presents in parallel the real prices of farm products, calculated in the same way as explained for real wages. The years 1890–99 are taken as a base period because they seem to mark a turning point in the relations between the two series. An average line fitted to the real prices of farm products in 1869–1896, and extended forward, runs definitely below the prevailing real farm prices of 1910–14; and also below those of 1924–29.[1] In the base period used for figuring parity, 1910–14, the index numbers of real prices average 12 percent higher than this line. It will be remembered that the index numbers of real hourly wages averaged 29 percent below the comparable line for wages.

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[1] The farm price index used in the series is that of Bean and Strauss, published in USDA Technical Bulletin 703, *Gross Farm Income and Indices of Farm Production and Prices in the United States, 1867–1937*. No other series extending this far back is available.

If these two average lines fitted to the years 1869–1896 have any significance, then there is definite implication in this chart that the years 1910–14 were relatively high years for agriculture, and relatively low years for wages.

It is clear, any way one looks at it, at least that real farm prices in these base years were near their all-time World War peak of 1919, and that real wage rates were in the midst of a long flat stretch with almost no advance in it.

One further circumstance adds considerable weight to such a conclusion: The average line for 1869–1896 wage rates, extended through to 1940, is very close to an average line for the whole 73-year period, and the same is true for the farm price line.[1] If 73 years of history of farm price and wage rate relationships carry any weight at all, they say that farm prices were out of line upward and wage rates out of line downward in the five base years from which farm parity is now being measured.[2]

* * * * *

Still the author is unwilling to call the issue settled. No good economist at all careful of his words would make the statement to which hundreds of thousands of farmers over the centuries, in all lands, have given fervent utterance: "All these years the farmers have been producing for less than the cost of production." Nevertheless some good economists might choose some other more precise words to convey exactly the same idea.

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[1] The slope of the average wage line for the whole period is only slightly more than for 1869–96; the sharp upward surge in the 30's is responsible for what difference there is.

[2] Extended backward to 1840 the average line for 1869–96 fits roughly the trend in real farm prices, the advance in this case being more than the trend line in contrast with less in the case of real wages. In general, taking 100 years instead of 73 does not change the fit importantly.

They may be curious, for instance, as to why real returns to agriculture have increased at a rate of only 0.2 percent per year since 1869 compared with 4 percent for real returns to urban labor. Does this really mean that the productivity of workers in agriculture has advanced at this much slower a rate? If one could have some physical measure of the relative outputs per worker, what would they show? The Bean-Strauss index of physical output of agriculture shows an average increase from 1869 to 1937 of 4 percent per year.[1] This, divided by the increase in numbers gainfully employed in agriculture, gives an increase per worker of 2.1 percent per year. The only comparable figures available are 1.05 percent per year for the total economy, and 3.9 percent per year for manufacturing, mining and construction combined. Distribution and service are what bring down the national average.[2]

Thus we observe agriculture making a contribution of a 2.1 percent gain in physical output per worker in this long period, and getting an increase in real price per unit of product of only 0.2 percent per year; and the rest of production making a contribution of 3.9 percent per year, and getting a gain in real wages of 4.0 percent per year. For the whole non-agricultural part of the economy, the gain in output was only 1.05 percent per worker per year.

There is surely a suggestion in these figures that farm people have not shared as they should in the gains which they have created—that somehow they have passed these on to the rest of the population in relatively lower prices—perhaps as a result of the constant pressure of farm prices of larger and larger outputs, perhaps because farm people have been too slow to shift to other occupations turning out products which people want most with their increasing incomes, perhaps because they are all of the time habituated to lower levels of living and returns.

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[1] Bulletin previously cited, Table 58.

[2] The data used in this computation are derived from Tables B and D of *Does Distribution Cost Too Much*, published by the Twentieth Century Fund. They are adaptations of data from the census monograph on *Industrial Distribution of the Nation's Labor Force*, October, 1938.

If the agriculture of the country and the manufacturing part of it were in fact two separate countries trading with each other, an economist would surely say that "the terms of trade" had been against agriculture.

Another way of stating the same problem would be as follows: An estimate recently published is that the total volume of production in the United States increased ninefold between 1870 and 1930.[1] Agricultural folks have surely shared in this increase, but have they shared equally? Or in proportion to their contribution to it? We can be sure that if one major group in society gets less than its share, the other groups must get more. All of it is taken by someone. There is no more certain law of economics than that total production and total consumption are equal—not ordinarily in the short run, but surely over 73 years.

If some group has obtained an extra share belonging to agriculture, it may have been labor, or it may have been capital, or it may have been both.

We shall have something more to say on this subject in a later chapter on Farm *vs.* City Incomes.

Finally, one must take particular note of the *rapid upturn in real wages which came in 1929 to 1940*, and of the *general downward drift of real farm prices in this same period. The sug-*

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[1] *Does Distribution Cost Too Much.* See pages 12–14. This estimate is somewhat too high because of not allowing for the decrease in production for home use.

*gestion is strong in this that agriculture and labor have come into a period which is the reverse, and strongly so, of that in 1896 to 1918.*

But it may be that only the particular conditions of these years are responsible. The sharp upturns in real wages came in 1928–31, 1934–37 and 1940–41. It has been pointed out before that real wage increases commonly do come in the boom years just before depression, and are largely sustained during them. But this is mere description and not explanation. The same description finds declines in real wages often coming in periods of sharp upturns of prices. Perhaps the war will have such an effect this time. There is, however, little suggestion of it as yet in Chart IV.

* * * * *

Before passing on, let us note a few of the effects of the divergence between wage rates and prices after 1920. It has certainly increased the cost of a great majority of the articles that farmers and their families buy with their spendable income. Not in all cases, to be sure. In some an increase in the efficiency of manufacturing and in the use of labor has offset fully or more the higher wage rates. Rubber tires are a notable example of this, automobiles almost as good, tractors a fair case. Most of these are new articles that have come into wide general use since 1920. But the standard types of commodities, like grain binders and mowers, building materials, kitchenware, furniture, and clothing, have been priced far above their pre-war levels ever since 1920, some of them at double. Railway freight rates have been a half higher; rents about double. The average farm tax bill in 1910–15 was $225, in 1940 around $450; and a good part of the increase has been due to higher costs of materials and labor used in public works and the public service. Because of higher rents and wages today, the middlemen have taken a higher toll on the food products passing through their hands, making them cost the consumers more, but also leaving less for the producers. The farm producers in 1939 were receiving only 41 cents out of average consumer dollar spent for food, as compared with 52 cents in 1913–15. Margins have been widened fully as much on clothing, furnishings and other consumer goods.

The industrialist met this new wage situation in considerable part by introducing more and more labor-saving methods and devices. The volume of manufacturing output was 64 percent larger in 1929 than in 1919, with an actual decrease in number of wage earners. One result of this was that many city workers were not employed regularly in the decade of the 1920's. Except at the peak of the big business boom at the very end, anywhere from 1½ to 4 million employable workers were without jobs at different times. If unemployment were counted the way it has been counted since 1935, the estimates would have been at least a million higher.[1]

The farm laborer for hire was put in a peculiar spot because of these changes. If he could get a job in the city, he could benefit from the new urban wage structure. But the only way of doing this was to displace some city workers also needing a job. Enough of them were able to manage this in the 20's so that farm wages rose about half the distance toward city wages. They averaged $39.75 per month (board and lodging furnished) in 1920–29, as against $22.07 in 1910–14.

The net migration from farms to cities increased strikingly in consequence, running over half a million a year in

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[1] The earlier estimates did not count as unemployed as large a proportion as recent ones of the partly employed, "unemployables" and the like.

1921–23, and again in 1925 and 1926. The total farm population fell off from 31,614,000 to 30,700,000 between 1920 and 1930.[1]

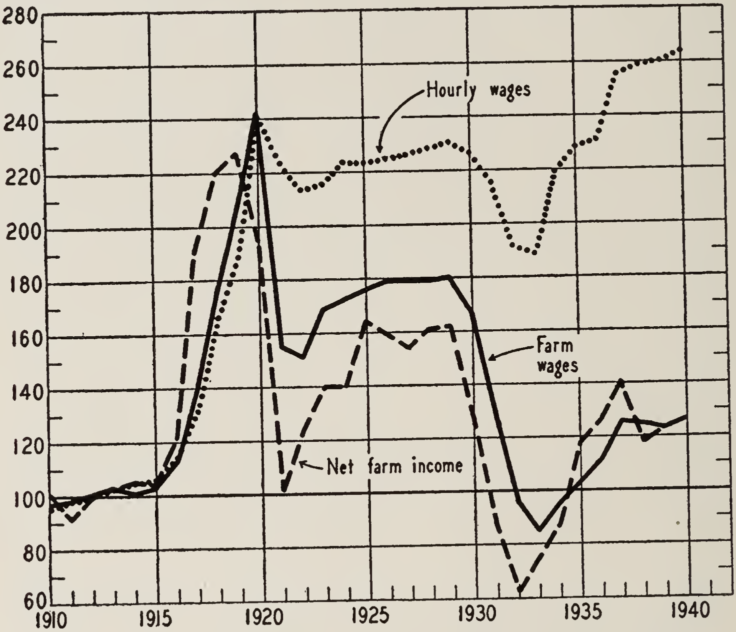

CHART VII. *Index Numbers of Money Hourly Wages of Labor, of Wages of Farm Labor, and of Net Farm Incomes.*
(1910–14 = 100)

Faced with higher wages, farm operators also used more power and machinery. For this and other reasons, the output per worker in agriculture increased 8.8 percent in the decade of the 20's.[2] But this figure is far short of the 65 percent for manufacturing!

[1] Revised estimates by John D. Black, "The Agricultural Situation, March 1940," in *Review of Economic Statistics*, May, 1940.

[2] Based on revised estimate of gainful workers by J. D. Black, *Op. cit.*, and the Bean-Strauss index of physical volume of production.

## CHAPTER VII

# *FARM vs. WAGE WORKER'S ANNUAL EARNINGS*

We have already noted the general concern of farmers with prices without due regard to incomes, and of laborers with wages without due concern for their annual earnings. In all of the last chapter we met them on their own ground. Now we are going to ask them to come over on the other side of the fence and take a look at total earnings.

An hour of labor is of course an hour of labor; and the employer should pay for exactly what he gets. But it is also true that 100 working days in a year, in any kind of economy that the world has thus far known, is not as good for the worker's family as 250 at somewhat lower rates per day. And 600 million bushels of wheat are not as good for western farmers as 800 million at a little lower price. And if nearly all the workers are able to work 250 days in a year, and all the farms are able to grow a third more farm products, there are more groceries, clothing, automobiles, furniture and everything else for all of them. This is the direction in which we must make our economy move, and all of us must take a part in it—especially in wartime.

The most obvious demonstration of the foregoing is the difference in the behavior between hourly earnings and factory payrolls in and out of recent depressions, shown in Chart I. Because of unemployment in 1921–22, annual earnings fell off much more than hourly earnings; and this difference was very pronounced in the early 30's. Since then the two measures have been widely apart, for reasons to be apparent presently. The drop in payrolls in 1937–38 affected hourly earnings scarcely at all.

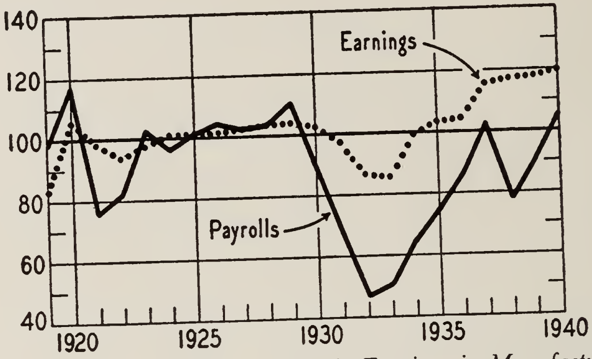

CHART I. *Index Numbers of Hourly Earnings in Manufacturing and of Factory Payrolls, 1919–40.*

(Bureau of Labor Statistics, published in *Monthly Labor Review*)

To show fully the relation between employment, wage rates and annual earnings, one needs data on each of these separately. They are not generally available. Professor Paul Douglas has worked out average annual earnings and hourly earning for several groups from 1890 to 1926. The two series in Chart II are approximately comparable. Annual earnings fall below hourly earnings in every depression, and rise above them when business is on the upgrade. The discrepancy was as large in percentage terms in the 1890's as in the depression of the early 20's.

For the period 1919 to 1940, it is possible to place in comparison annual earnings figures and hourly rate figures for manufacturing alone, as in Chart III.[1] The gaps in the depression are as obvious here as when factory payrolls were used. The gradual divergence between the two curves after 1930 is due to something else—the shortening of the work week. This strongly suggests that shorter hours per week rather than persistent unemployment account for the continuing gap between payrolls and hourly rates in Chart I.

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[1] The annual earnings figures have to be computed by dividing the factory payrolls indexes by the employment indexes.

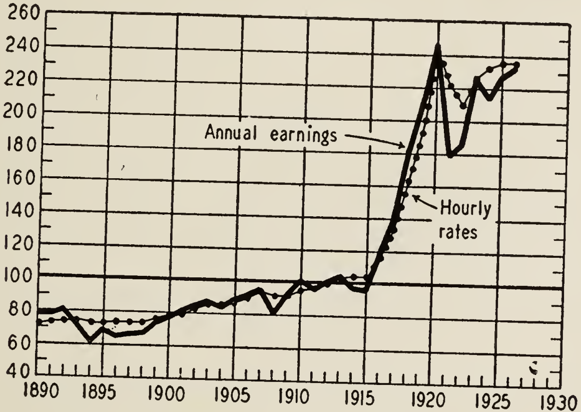

Chart II. *Index Numbers of Hourly Earnings in Manufacturing, and Annual Earnings in Manufacturing and Transportation, 1890–1926.*

(1910–14 = 100. Douglas, *Real Wages in the United States*, Tables 24 and 174)

The gaps between annual earnings and hourly wages in depressions are due, however, mainly to variations in the amount of unemployment. The average work week shortens only a little in a depression, and recovers only a little afterward. This is apparent in Chart IV, showing changes in the hours worked per week since 1909. There is a general downward trend in addition to the variations in and out of depressions. The decline from 52 hours in 1909 to 38 hours in 1939 is more than one-fourth. Nearly two-thirds of this shortening came after 1929. As is more obvious from

Charts III and IV, a considerable part of the gain in hourly rates since 1929, meant no increase in annual earnings—merely the same income was earned in fewer hours of work.

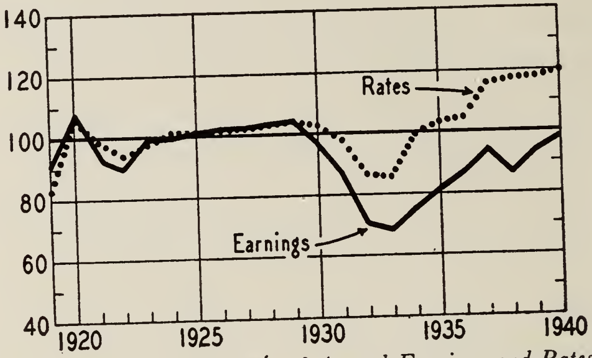

Chart III. *Index Numbers of Annual Earnings and Rates of Hourly Earnings in Manufacturing, 1919–40.*

(1923–25 = 100. Bureau of Labor Statistics, published monthly in *Employment and Payrolls.*

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We have been able to offer no exhibit of figures for the whole period 1867–1941 showing how the changes in hourly earnings of Chapter VI have been compounded and what they signify. But for the whole period since 1890, they have been combined with a good deal of unemployment in depression periods which has had the effect of reducing annual earnings. This was strikingly true in the last severe depression. More important than the foregoing, however, is the circumstance that beginning shortly after 1921, if we may judge by Chart III, a shortening of the work week began to reduce the significance of the hourly rates, judged from the standpoint of workers' incomes. This change was much more rapid from 1930 on. Because of persistent unemployment, the hours of work have been shortened and hourly rates increased much more than annual earnings. The bulge of hourly rates above the trend line since 1928, seen in Chart V in the preceding chapter, has not been accompanied by an equal advance in real annual earnings of labor.

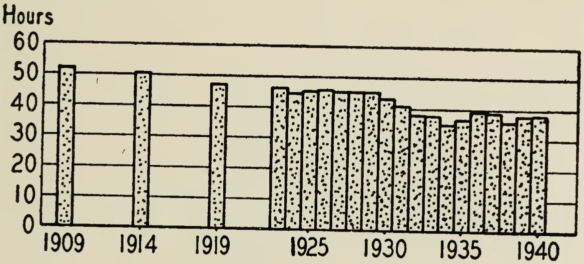

CHART IV. *Hours per Week in Manufacturing, Mining, and Railroads, 1909–39*

(*Monthly Labor Review*, September 1940)

Nevertheless, the real hourly rates of 1937–39 when multiplied by the accompanying hours of work per week, give an earnings product which is 17 percent higher than a comparable figure for 1925–27, and 63 percent higher than a comparable figure for 1910–14. Since 1932–34, the gain has been 12 percent. This is the best indicator of gain in purchasing power. But to this must be added the gain of working a fourth fewer hours, with its accompanying leisure time for recreation, or even supplementary occupation.

"Sharing the work" since 1933 has therefore not meant any loss in money income. Hourly rates have increased enough to offset and more the fewer hours.

This is a good point at which also to say something about output in the 1933 decade. The studies of the National

Bureau of Economic Research indicate that whereas in the decade 1919–29, output per wage earner in industry increased 65 percent, in the period from 1929 to 1938, it rose scarcely at all.[1] Later data indicate that it rose rapidly in 1939 and 1940. Per man-hour, what with the shortening work week, there was an increase of around 15 percent by 1938, and more than twice this by 1940.

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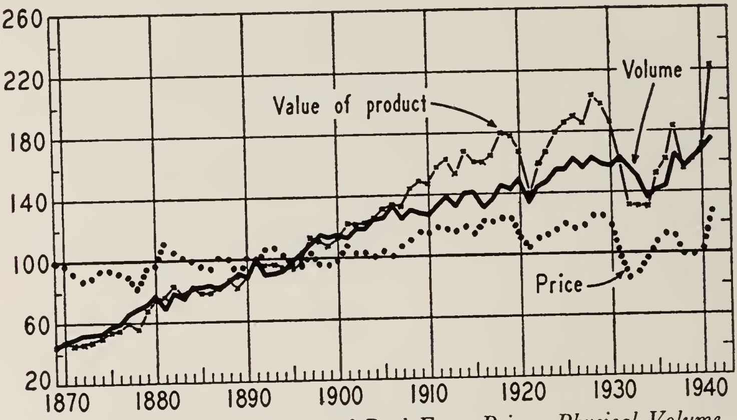

Chart V. *Index Numbers of Real Farm Prices, Physical Volume of Agricultural Output, and Gross Real Value of Product, 1869 to 1941.*

(1890–99 = 100. Using the Bean-Strauss index numbers of physical volume to 1937. Calculated from BAE sources for years since.)

In similar fashion we must undertake to combine farm prices with some sort of a measure of volume comparable to volume of employment, in order to convert them to an annual earnings basis.

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[1] "Physical Output and Efficiency of American Manufactures," Leo Wolman, in a report to the Falk Foundation on the Studies made by Solomon Fabricant and published for 1899–1937 in *The Output of Manufacturing Industries.*

Hours of labor per day or week we can do nothing with—there are no available series of data over time. Common opinion is that farm folks are working shorter days. It may be wrong. In general, as systems of farming have shifted from cash crops to crops and livestock, the working day has lengthened—and more so in the winter than in the summer. In large sections of the country this shift has come on apace—notably in the states from the Great Plains to the Alleghenies. It is invading the South gradually.

Volume of total agricultural output can of course be measured. In Chart V it is recorded by years since 1869, together with real prices, and annual gross value of product. Such an exhibit really represents the growth of our agriculture, in both physical and value terms.[1] Many more acres of land, and horses, cows, plows, tractors and the like went into the 1937 production than into that of 1869: also 10,472,000 workers at the end compared with 6,850,000 at the beginning.[2]

If such outputs and returns are to be expressed in terms comparable with employment and hourly rates of labor, they must first of all be converted to a per-worker basis. In these terms, the data of Chart V become those presented in Chart VI.[3] The gain in gross value per worker was strong until 1930 except for the post-war interruption. An increasing volume of physical output per worker was a large factor in this, contributing at least two-thirds of the advance. Reduced volume came with the depression of the 30's, partly as a result of droughts and partly because of production control. Since 1934, the general trend of both volume and gross value has been upward, value slightly more than volume.

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[1] The values are reduced to a common price level basis; that is, dollars of 1890–99 = 100.

[2] The figure for 1937 may be too high if one accepts the recent estimate of the Census Bureau of 9,163,000 gainful workers in 1940.

[3] No data on gainful workers in agriculture are available before 1910 except in census years.

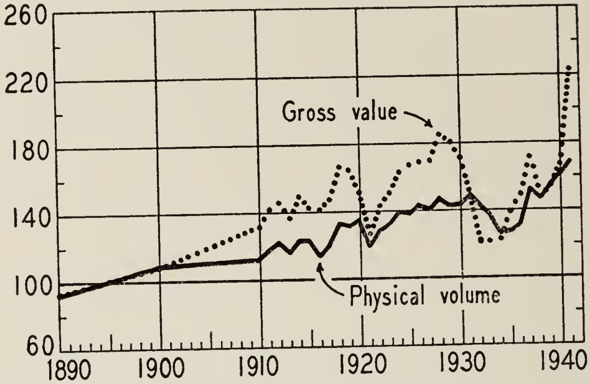

CHART VI. *Index Numbers of Physical Volume of Agricultural Output, and of Gross Real Value of Product, Per Person Gainfully Employed in Agriculture, 1890–1940.*

(1890–99 = 100)

Significance should be attached to the fact that throughout this whole period from 1910 to 1940, the direction of change upward or downward is the same for gross value and for physical volume in all years but 1915, 1919, 1923, 1929, 1930, 1932 and 1933. Even in these years, the difference in direction has been small. This means that the largest total agricultural outputs have generally been worth the most money. The question raised by this will be discussed in a later chapter.

It is highly important to recognize, however, that by no means all the gain shown in Charts V and VI is net; outlays for machinery, supplies and taxes take a much larger chunk out of the gross income in some years than in others.

They have taken out more as time has gone on. The expenses were only two-fifths of the income in 1919; two-thirds of it in 1932. Generally only two-fifths of it before the first World War; generally over half or more of it since.

The general effect of reducing gross and net farm incomes to a per-worker basis is indicated by the following summary figures. The last column is included to show how large a factor in farm expenses these three items represent. The rising ratio of expenses to incomes is apparent and also its increase in depression periods like 1920–22 and 1931–32.

| | Gross income per farm worker | Expenses per farm worker | Net income per farm worker | (Interest, taxes and rent per worker) |
|---|---|---|---|---|
| 1910–14 | $ 655 | $280 | $375 | $ 85 |
| 1920–22 | 1075 | 580 | 495 | 175 |
| 1925–29 | 1175 | 590 | 585 | 180 |
| 1931–32 | 667 | 407 | 260 | 132 |
| 1935–39 | 950 | 450 | 500 | 130 |

The expenses that must be taken out of gross income vary in part with prices. This variation is included in the index numbers of prices paid, shown in the charts in Chapter V. But they also vary with a physical volume factor. Farmers now depend upon purchased aids to production in much larger volume than formerly. Each worker has a larger slice of his gross product taken to pay for *things he works with.* No index numbers of this have thus far been released, but in general it would average about 55 percent per worker more now than in 1910–14.

The next step in the analysis should be to take the net incomes to persons working in agriculture and divide them by the number of persons gainfully employed; and then compare the results with similar figures for the groups of workers engaged in manufacturing and other urban pursuits reported upon in the first part of this chapter. Unfortunately, the latter computations can be made from the available data only on terms of the total non-farm labor force. Such a comparison is presented for the years 1910–41 in Chart VII. Here we see the total earnings of the city wage and salary receivers from their jobs, and the annual earnings of workers on farms (the farmers plus their family helpers plus their hired helpers all combined) expressed in dollars of the current years and placed in deadly parallel. At this point, our interest is in the way in which these have diverged since 1910. The big separation came in 1920–21. But the spread widened in 1925–29 and again in the recent depression. Most startling is the manner in which the gap has widened since 1937.

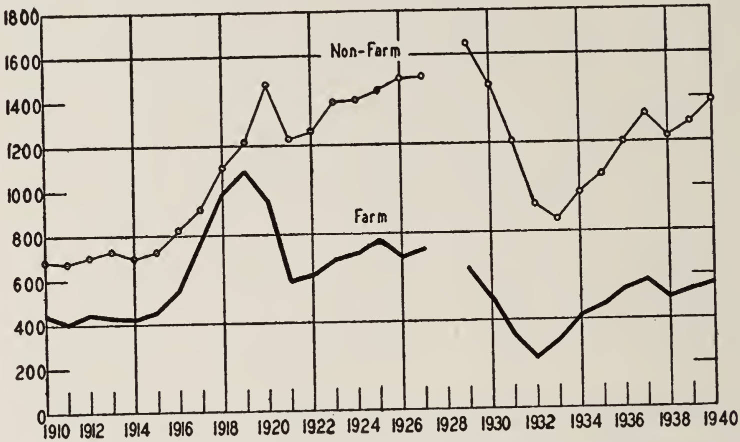

Chart VII. *Net Income Per Farm Worker and Annual Earnings Per Non-Farm Worker.*

(1910–14 = 100. The data for before and after 1928 are not exactly comparable. Those for the earlier period are derived from King's *The National Income;* those for the later years from BLS and Department of Commerce sources).

As to the difference in absolute levels—$380 as to $680 in 1910, and $450 and $1650 in 1940—we shall have something more definite to say in a later chapter on Farm *vs.* City Incomes. Suffice to say at this point that more boys and girls are counted as gainful workers on farms than in cities, and that this reduces the averages a little. In 1929, the labor force of an average farm in the United States was made up as follows: total, 1.8 workers; proprietor, 1.0; hired, 0.6; unpaid family labor, 0.2.

At this point it will be interesting to compare with the foregoing the data on income per capita of the farm and non-farm population that were called for in the Soil Conservation and Domestic Allotment Act of 1936, but never fully compiled until last Summer. (See Chart VIII.)[1] Remember that these latter results include, on the one hand, total population, not just gainful workers; and on the other, the total income of the farm and non-farm population from all sources, not only from labor but from business profits, dividends, interest, and rents and royalties. Relative to 1910–14, the non-farm incomes have remained the higher since the World War except in a short period from 1934 to 1937 when agriculture was benefiting directly from government aid, and the rest of society had not yet caught up.

It is only when one of two series such as these is set up as a standard from which to measure departures of the other that one gets a clear idea of their relative positions. This is done for Charts VII and VIII in Chart IX. The parity ratios in population terms, farm as a ratio of non-farm, were down to 61 in 1932, after averaging around 95 from 1925 to 1929. These of course are all relative to the base period 1910–14. From 1935 to 1937, excluding direct government payments to farms, they averaged 98, but were

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[1] The data for Chart VIII are published in Table 4 of *Materials Bearing on Parity*, which is a collection of facts and data that was presented before a subcommittee on parity of the Committee on Agriculture and Forestry of the United States Senate, of which Senator Thomas was chairman, in July 1941.

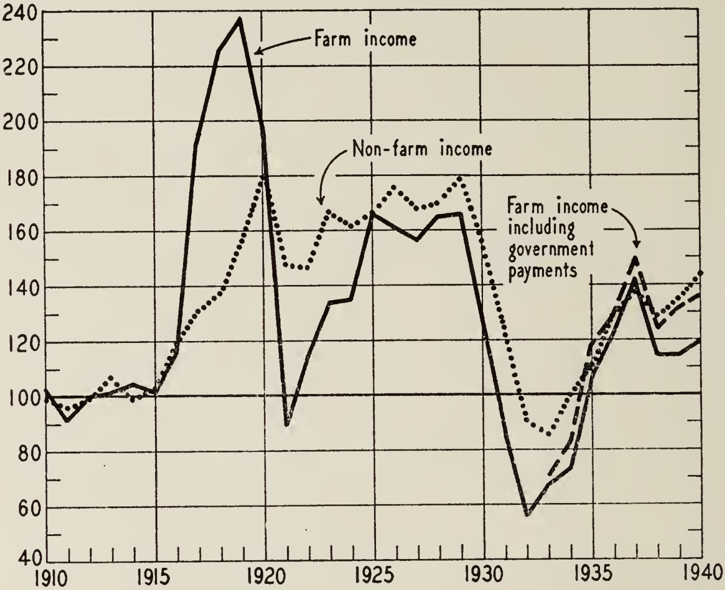

Chart VIII. *Index Numbers of Per Capita Farm and Non-Farm Income, the First Both Including and Not Including Government Payments To Agriculture.*

(1910–14 = 100)

down to 84 again in succeeding slump. In the one year of peak prosperity since the big depression, the year 1937, the index of farm income per capita was over 100. Including government payments to farmers in farm income, however, as in the broken line in Chart IX, has brought it up to an average of 101 since 1935, as compared with 100 as the pre-World War parity standard.[1]

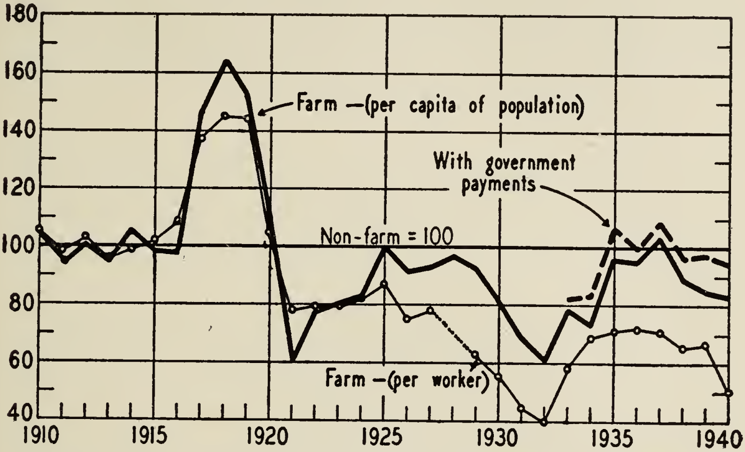

CHART IX. *Differences of Net Farm Incomes Per Worker, and of Farm Incomes Per Capita of Farm Population, From Comparable Non-Farm Series.*

(1910–14 = 100. The series on a per-worker basis, like those in Chart VII, are not exactly comparable before and after 1928)

The divergence after 1924 is even greater in terms of a per-worker comparison than in terms of population numbers.[2] The comparison is definitely more unfavorable to agriculture when labor alone is considered than when capital and the enterprisers are counted in with it. The reason for this will be spelled out in the next chapter. Suffice at this point to say that the divergence is greater between the earnings of agriculture and labor than between those of agriculture and capital and the enterpriser group. This has been especially true since 1936.

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[1] It needs also to be pointed out that these income data include as non-farm income the earnings of the farm population at non-farm employments, estimated in 1940 to represent $50 per capita. If the amount of these has increased since 1910–14, as we have many reasons to believe, then the farm income index would be higher than it is in these later years, and the non-farm index a little lower.

[2] Using the new Census Bureau estimates on number of gainfully employed in agriculture in 1940 would raise the figures for farm incomes per worker from 1935 on. The writer is unwilling to use these estimates until they can be studied carefully.

* * * * *

Now that we have the two series—farm and non-farm—each reduced to an annual earnings basis per capita, how much farther are we on our road toward evaluating parity?

In Chapter VI, urban labor's rewards were expressed in hourly rates, and agriculture's in prices per unit of product. In terms of the 1910–14 base period, the divergence appears to have been very wide since 1920; and has been widening notably since 1930. The 1910–14 base period is not well chosen for such a comparison; *but the divergence since 1930 has been beyond any reasonable allowance for deficiencies of this base period.*

In the present chapter, the hourly rates series have been converted to a per capita annual earnings basis, and the farm price series to net farm income per worker in agriculture. This translation takes account of changes in the amount of urban worker employment, and also of changes in volume of farm output per worker. *This adjustment removes considerable of the disparity appearing in Chapter VI, but still leaves agriculture at a disadvantage.* The disparity is not so great when farm incomes are compared with non-farm on a population or per capita basis; but it is still very significant.

Urban labor has at the same time enjoyed a notable shortening of the work week, for which there is probably no full counterpart in agriculture.

These comparisons are all with reference to 1910–14. Even though, relatively to labor, agriculture was better off in this period *than before or after*, it still may have been at much disadvantage over the whole run of years. A later chapter deals with this aspect of it.

## CHAPTER VIII

# *THE THREE SHARES OF THE NATIONAL INCOME*

However much the parity issue may at times seem to focus on agriculture and labor alone, it should never be allowed to continue thus very long. Of the national income in 1941, almost exactly one-fourth went to capital in the form of dividends to stockholders, business savings and interest, and rent and royalty payments. How has this part of the national income changed since the base years 1910–14?

It was often admitted by spokesmen for agriculture in the late 1920's that prices of farm products were almost back to prewar parity again; but they pointed out that capital's rewards as well as labor's had run way beyond parity. Chart I attests strongly to the truth of this claim. Here the Department of Commerce data on Income Produced are joined onto some worked out by Professor Simon Kuznets,[1] beginning in 1919, and an earlier series prepared by the National Industrial Conference Board,[2] to make a comparison running clear back to 1910.[3]

All three partakers in the national income gained ground in the last World War, but agriculture gained the most. In the recovery of the 20's, labor gained somewhat more than capital, and both much more than agriculture. In the depression of the 30's, agricultural net income largely disappeared, and likewise capital income. The levels for 1941 are at 147 percent of 1910–14 for agriculture, 380 percent for labor, and 241 percent for capital.

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[1] *National Income and Its Composition*, National Bureau of Economic Research.

[2] *National Income in the United States*, National Industrial Conference Board.

[3] The two series run closely together in the years from 1919 on, and the three in still later years. For fuller discussion, see an article by the writer, "The Agricultural Situation, March 1940," published in *Review of Economic Statistics*, May 1940.

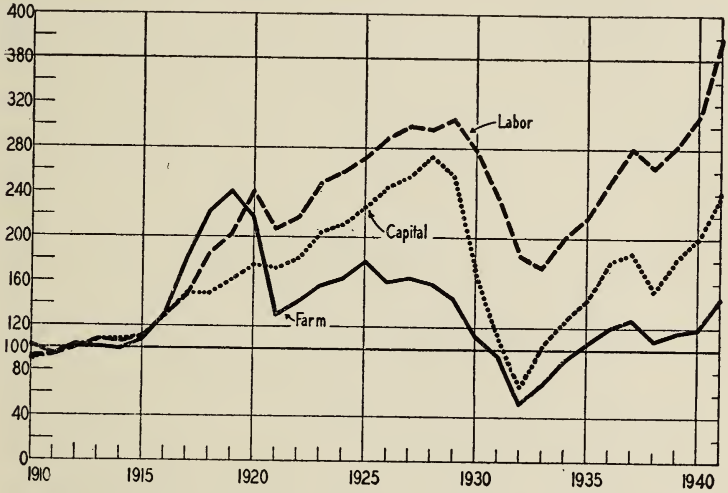

CHART I. *Index Numbers of Net Farm Income, Labor Income, and Capital Income, 1910–41.*

(1910–14 = 100)

The general impression conveyed by Chart I is that of an agriculture relatively subsiding so far as income is concerned. It has also been subsiding in terms of physical output. This is true not only in the United States, but the world over whenever the levels of living of the people are rising. As any people becomes more productive per capita, and has a larger real income, it spends more of it on goods and services produced in cities, and less of it on the raw materials of food and clothing.

Any one country could of course offset this by increasing its exports of farm products; but not very many. Until around 1910, the United States was able to do this. Its agriculture and exports grew faster than its population, as was apparent in Chart I in Chapter III. Since the World War, the whole drift has been the other way; and now the rate of population growth is also slackening rapidly. The new war and post-war will furnish an outlet for large exports again; but not for a very long post-war—too many other new countries still need an export outlet for farm products.

* * * * *

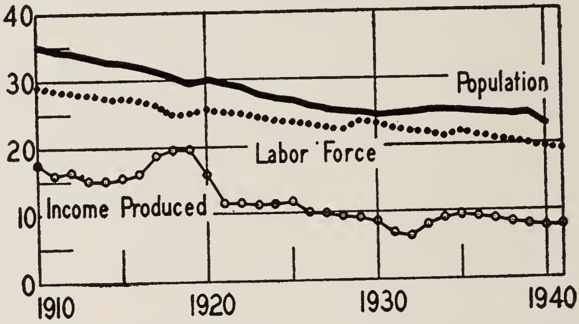

Chart II. *Agricultural Income Produced, Farm Population and Labor Force in Agriculture, as Percentages of the National Totals, 1910–41.*

The way in which agriculture and farm income have declined together in relative size since 1910 is roughly indicated in Chart II. Both farm population and number of "gainful workers" in agriculture are here taken as measures of the size of the agricultural plant.[1] Decline in income was clearly more than in population and gainful workers after 1919, but there has been improvement since 1933. In 1939 when the writer first constructed this chart, it appeared that net farm income needed to increase about $2,500,000,000 before it would be in the same relation to population and gainful workers as in 1910–14. By 1941, around $1,500,000,000 of this had already come to pass. But other income had also gained in the same period.

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[1] It will be remembered from Chapter VI, however, that each worker in agriculture was using 55 percent more equipment and supplies in 1940 than in 1910–14.

Among farm people and other rurally minded persons, will be found a certain number who are disturbed at observing the steady decline in the role of agriculture in the nation. They would like to see more farmers and fewer city folks. They may hold that nations lose their vigor as they become too citified, or that they don't keep up their population growth as needed. One of the contentions of this group surely must be taken seriously. It is that the failure of agriculture to be compensated proportionately reduces the means wherewith to support a due share of the nation's population on an adequate scale of living. Another three billion of farm income would support many more farm families in better homes and with better diets, clothing, health and all the things that make for better living. They would not necessarily produce more for the market—they could work fewer hours a day instead.

But the danger is very real that an increase in farm income would not work out in such a happy way—that instead the numbers of farm families would grow until there was no more income per family than before. Several hundred thousand farm boys and girls must migrate to the cities each year to keep opportunities anywhere nearly equal in farm and city. If only a fraction of the usual migrants stay in the country each year for a few years, all the possible gains from a larger farm income would be divided among them. Standards of living must therefore rise as fast as incomes grow if larger incomes are going to help agriculture much. Fortunately they have shown an increasing tendency to do this since the automobile came.

* * * * *

Back in 1921, the Secretary of Agriculture, in his annual report published in the *Yearbook*, presented two "pie charts" facing each other, one showing agriculture's average slice in the 1909–18 income pie as 17.4 percent, and the other its slice in the total working population as 28.0 percent. (See Chart III.) Here was over a fourth of the nation's population getting only a little more than a sixth of the national income! Ever since then there has been talk in farmer conventions, farm journal columns, and often in Congress, of the "farmer's share in the national income." In 1940 the same percentages stood something like 22 percent of population and 8 percent of income. There are some serious

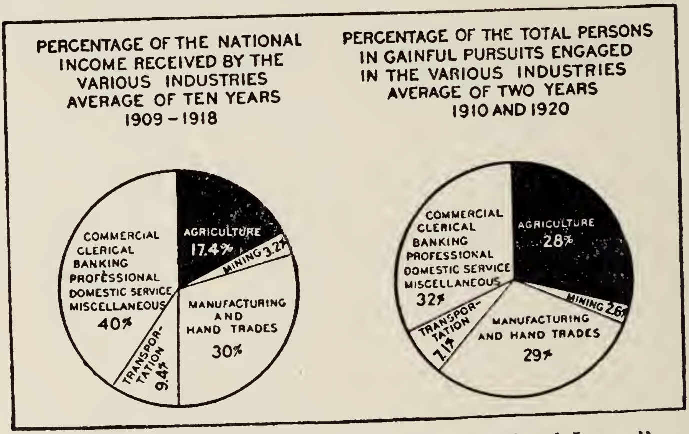

CHART III. *"The Farmers' Share in the National Income"— Chart Published By Secretary Wallace in 1921.*

defects in this comparison—the composition of the farm and non-farm working population groups are unlike, and the farm and city dollars do not have equal purchasing power. But if this comparison were valid, it would have one great merit—it would furnish an absolute measure of the differences in real returns of farm and city folks. All the others that we have been using are only relative to some base period. In the year 1937, when farm income per capita was 103 percent of the non-farm as compared with 1910–14, the share of agriculture in the national income was only 9 percent as measured against a 22 percent share in the working population. We will return to this approach to our problem in Chapter IX.

* * * * *

In the same stretch of thirty years, from 1910 to 1940, the proportion of gainful workers reported in the labor force not on farms rose from 57 percent of the total to 69 percent of it; and the share of the national income going to the labor non-farm force rose from 53 to 68 percent of it. Labor gained more than in proportion to its increase in numbers, just as agriculture gained less. Chart IV shows these relations in detail by years. From 1929 on, two series are shown for numbers of non-farm workers—the larger one including the unemployed and the smaller not.[1] Similarly the larger percentages for earnings include unemployed relief payments and the smaller do not. The share of labor in the national income increased greatly in the recent depression.

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[1] It will be observed that the two series for number of workers do not meet exactly in 1927–29. In the chart, more persons are reported as employed than on the labor force in 1929. At that time, the concept of "labor force" was not recognized. It took a siege of heavy unemployment to incubate it. The figure for labor force in 1929 is probably too low. The census count of laborers was low in 1930.

This was because the earnings of agriculture and of capital and the enterprisers were so small. In 1932, salaries and wages took over three-fourths of the national income, the capital group less than a sixth, and agriculture a mere pittance.

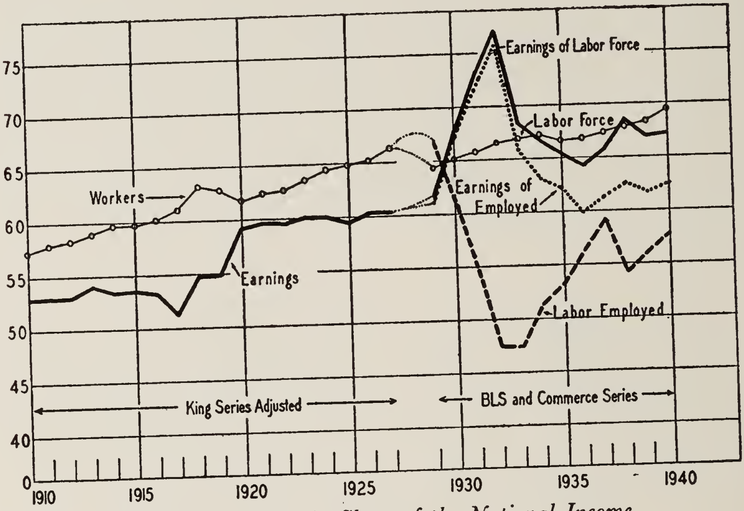

Chart IV. *Labor's Share of the National Income.*

(Percentages of the total national income produced. The series before 1928 and after it, like those in earlier charts, are not exactly comparable. They are from the same sources.)

The remaining share of the national income is return to property and to those who run their own businesses, the "enterprisers," whose rewards are often loosely called business profits. It is not possible to say how many persons receive this share of the national income—there are interest, dividend and rent receivers in all classes, even among farmers. Only part of it goes to the enterprisers. Nevertheless, it is of interest to observe the relationships shown in

Chart V. In general, the share going to the enterpriser and property group has not quite recovered its pre-war and pre-depression position. Capital as well as agriculture has surrendered some of its rewards to labor—but by no means as much relatively as agriculture. Per non-farm enterpriser, the returns increased rapidly until 1928, because the national income was growing while the number of such enterprisers was standing about still.[1] The same tendency has reappeared since the depression.

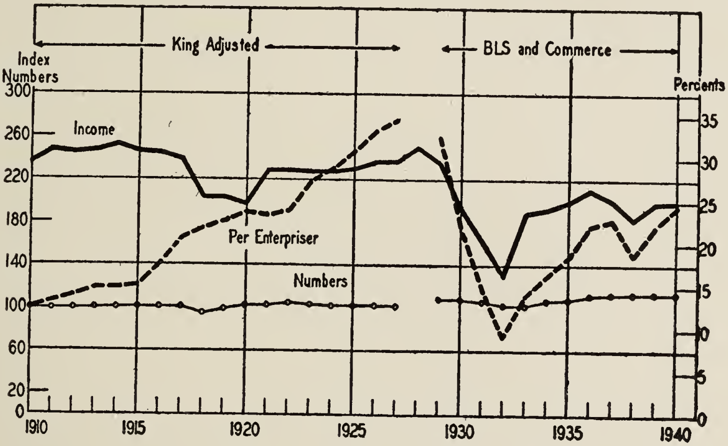

CHART V. *Percentages of National Income Going to Capital and the Enterprisers, Numbers of Enterprisers, and Ratio of Such Income to Number of Enterprisers.*

(Data from same sources as those in Chart IV. The enterprisers are non-farm.)

* * * * *

Put together the series for agriculture, labor and capital presented in this chapter, and the picture resulting is that of agriculture *declining* greatly in relative numbers and *even more in share of the national income* from 1910 to 1940; of non-farm labor *increasing* notably in numbers and *even more in share of the national income;* and of returns to property and enterprisers fluctuating widely in and out of depressions, but on the whole *declining somewhat in share of the total income. The amount of change in relative income position, total and per capita, is very great for as short a run of years as thirty.*

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[1] Counts of numbers of enterprisers are very uncertain. How many self-employed persons should be classified as enterprisers is a matter of definition largely. The series used here have the merit of comparability rather than of precision.

* * * * *

*But although we can say that all of this has happened in thirty years, we cannot say with finality that in 1940, or in any other year of the thirty, the Parity balance was tipped to the absolute advantage of labor or capital or agriculture. Judged by the long course of history from 1869 to 1940, the balance was against labor, and in favor of agriculture, from 1896 to 1918, and after 1930 was strongly the other way until the new war broke on the world. In the intervening period, 1919–29, on the same basis, the scale beam was approximately level, but slightly against agriculture.*

*The long course of history, however, may not be a sufficient basis for judgment. In a growing economy like that of the United States, agriculture can scarcely hope to expand as fast as industry and trade. Hence its young people must move to the cities in large numbers. The evidence is clear that in large sections of the country they have not moved cityward fast enough. Even in the period from 1896–1918 they may not have done so. The scale beam even in agriculture's best years may therefore have been slanting a bit the other way.*

*That historic levels cannot safely be taken as a guide to Parity is made evident by the declining trend of returns to property and the enterprisers. The share of capital in production has been doubling every few decades, but the rates of interest and dividends have in general so diminished that the share of capital in the total income has become less, especially since 1930. If one could fit a trend line* *to this erratic series and assume the position of this at any time as parity—as in some measure we have done for labor and agriculture —then it might be possible to say that the returns to capital were above parity in 1925–29, and have been well below it since.*

*Agriculture combines labor and capital. It is steadily increasing the proportion of capital employed in its production processes. There is much to indicate that its rates of return on the capital it uses have declined pretty much with the general trend. More important, the returns to the labor part of its contribution to output, according to the author's most carefully considered judgment, have not kept up with the general upward trend for labor since 1918, and especially since 1930.*

## CHAPTER IX

# *FARM vs. CITY INCOMES*

The historical way of determining the Parity balance, it is now clearly apparent, does not yield any solidly based conclusions. All that one can claim for any summary statements derived from it is that they are carefully considered judgments. Why not instead attack the problem directly and determine for any particular time which of the three returns is the higher? This is what is undertaken in this chapter. On this basis, no separate analyses for capital and labor are possible, since we do not know among how many people the share of capital is divided. The comparison must be between all farm and all non-farm—in other words roughly between farm and city.

Such a comparison ought to be very simple, you may say —just add up the actual incomes of each and see what you get. But this is a large statistical order for a country such as ours. Moreover, there are some elements in each type of income which are hard to reduce to comparable terms. For every million of farm folks who think how much harder they work than city folks and get a poorer reward for it, there are more millions of city folks living in crowded streets and alleys who rightly envy farm folks what they think is their better food as well as their fresh air, sunlight, water and green fields. For every farmer and his wife who think that their lot is hard, an envious city family is easily at hand.

Nor do the statisticians, economists and sociologists come to any better agreement. Once having estimated the total agricultural income of the nation, and then the total non-agricultural, the statistician should need simply to divide each by the proper number of persons to get comparable per-capita incomes. Figures for all these items are now available. Put together as indicated, they give results such as the following, which seems to say that city folks have over twice the incomes of farm folks:

| Average of: | Farm | Non-farm |
|---|---|---|
| 1910–14 | $162 | $488 |
| 1918–20 | 353 | 746 |
| 1921–22 | 184 | 697 |
| 1925–29 | 274 | 818 |
| 1931–33 | 127 | 477 |
| 1937–40 | 217 * | 652 |

* Including government payments; excluding this, the figure would have been $197.

Can these figures possibly tell the whole truth? Surely thirty millions of our people would not have staid on farms for all these thirty years with so much better a living open in the cities!

Shortcomings in these figures are quickly discovered. The first is that they take no account of the earnings of farmers and farm workers at non-agricultural occupations—either off the farm, such as in a factory or a mine or logging camp, or at work on the farm not yielding farm products, such as homecraft production, or operating a school bus, or a roadside stand (selling other than products of the home farm).

The 30,547,000 of farm population in 1940 included 10,445,000 workers having farming or farm labor as their main occupation.[1] How much they earn in a year at other than farm work is not known. The 1940 census reports 1,750,000 of the farm operators doing work off the farm. Of these, 1,203,000 worked 50 days or more, and 944,000 worked 100 days or more. Only one-seventh of this off-the-farm work was done on other farms. These figures, furthermore, do not include the earnings off the farm of those farm hands and family laborers who reported farm labor as their "occupation," but who more or less mix other employments in with it during the year.

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[1] See footnote, pp. 15, 97.

In recent years, the Department of Agriculture has been making surveys of off-the-farm income of farmers. Preliminary estimates not yet released suggest that about $1,500,000,000 should be taken from non-farm income and added to farm income to make up for the earnings of farm people in census-enumerated city occupations. This transfer alone would increase the $217 of per-capita farm income to $267, and decrease the $652 of non-farm income to $635. These estimates cover only the first of the three items mentioned above. If all were included probably $285 would be a conservative total.

Another shortcoming is that the dollars in which farm and city income is figured do not have the same buying power. One part of the farm income is an estimated $210 worth of food and fuel produced on the farm and consumed by the average farm family. The valuations are made at wholesale prices, at what the farmer would sell them for at the local market. Data now collected and published regularly indicate that in 1935–39 city consumers paid, on the average, $2.40 for the produce for which farmers received $1.00 at the farm. On this basis, the $210 per farm family would have cost $505 if bought in the city. This represents an additional $75 per capita for the average farm family of 4.0 persons, which, added to the $285 per capita, raises the farm income figure to $360.

In addition to the $210 is an estimate of around $100 per year per family—$25 per person—for rental of the average farm dwelling, worth around $1200. The average rental for city families has been estimated for 1930 at $360 per household, $100 per person. Some of this difference is due to differences in costs—site values are much higher in cities; also construction labor, taxes and upkeep. The differences in site costs, however, may be offset in part by longer distances to stores, schools and doctors; and the city homes are likely to have more modern conveniences than the farm homes, even if less air and light. One almost has to go to the shanty towns and dump heaps of our cities to find the equivalent of the "cabins" in which a million or two of our farm families and farm laborers live. Hence there is no way of reducing this item to a comparable basis. It would not be reasonable to assume that housing costs as much less to build in the country as foods and fuel are cheaper on the farm, since much of what goes into a house is bought in town.

The average farm family of 4.0 persons in the United States has 1.4 members under 15 years of age; the average city family of 3.6 has 0.9 members under 15. This is equivalent to 110 fewer persons of working age per 1000 of farm than of non-farm population. As a result, one would expect the per-capita farm earnings to be somewhat less and also the per-capita cost of maintenance.

Perhaps if liberal allowance is made for all these shortcomings and differences, the $217 and $652 we started with as farm and non-farm per-capita income as of the year 1940, might be changed to something like $450 to $500 as against $635. This still leaves a pretty wide gap. It was a fairly wide gap back in the parity base-years of 1910–14. Why does such a gap persist?

Study of the data by states shows a general tendency for farm wages and industrial earnings to be low together in the South, and to be high together in the North and West.

No recent data have been published on net farm incomes by states; but it has been demonstrated that they tend to vary from state to state along with farm wages, generally on a higher level.[1] The states with the most agriculture have low average incomes in the South, but not in the West. If due allowance is made for the greater purchasing power of the farm dollar, and the other items mentioned earlier, farm incomes average somewhere nearly as high as industrial workers' incomes in Iowa, Kansas, Colorado, Nevada, California and Oregon. The following data for a sample of states arranged geographically support these conclusions:

| | Per-capita income payments,[2] 1938–40 | Annual earnings of industrial wage earners, 1937 | Wages of farm labor per month, without board, 1939 | Percentage of population on farms, 1940 |
|---|---|---|---|---|
| Connecticut | $785 | $1180 | $64 | 6.1 |
| New York | 790 | 1240 | 45 | 5.4 |
| Ohio | 605 | 1380 | 39 | 15.7 |
| Illinois | 650 | 1290 | 43 | 12.3 |
| Iowa | 450 | 1120 | 41 | 36.6 |
| Kansas | 405 | 1190 | 35 | 33.6 |
| Colorado | 525 | 1225 | 45 | 22.5 |
| Nevada | 875 | 1606 | 60 | 14.3 |
| California | 770 | 1290 | 69 | 9.7 |
| Oregon | 555 | 1205 | 50 | 23.7 |
| No. Carolina | 310 | 730 | 25 | 46.4 |
| So. Carolina | 270 | 705 | 18 | 48.2 |
| Mississippi | 200 | 575 | 20 | 64.2 |

It follows from the above that average farm incomes are as low as they are partly because so many of our farm families live in the South where all incomes run low. In fact, 48 percent of the farms of the country, and 56 percent of the farm population, are in 14 southern states.

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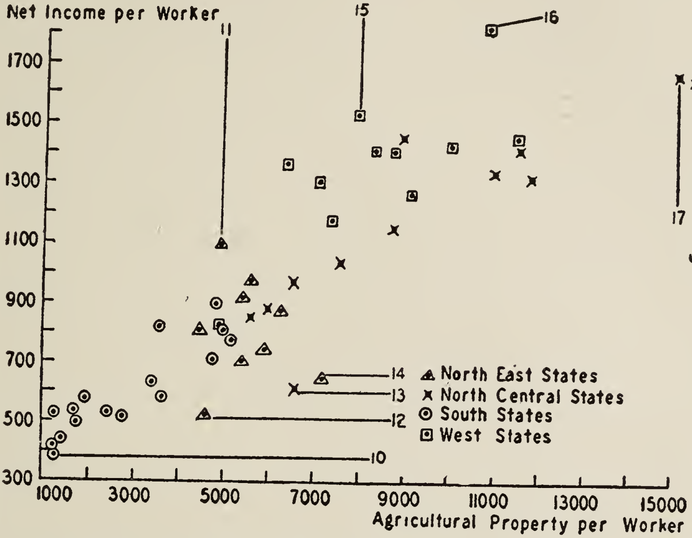
[1] John D. Black, "Agricultural Wage Relationships," *Review of Economic Statistics*, May 1936. Chart 13. At one extreme in some of the southern states, wage rates (with board) were around $30 per month in 1929 and annual net farm incomes per worker around $350; at the other extreme in the western states, the two figures were $70 per month and $1300 respectively.

[2] These averages do not include living obtained from the farm and a number of other items not so important. They are therefore too low throughout, but especially so in the agricultural states.



[1] States are numbered as follows: 1. N. H. 2. Ariz. 3. Texas. 4. Nev. 5. Calif. 6. Kan. 7. S. D. 8. Iowa. 9. Neb. 10. S. C. 11. Me. 12. R. I. 13. Md. 14. Conn. 15. Idaho. 16. Nev. 17. Neb. 18. Iowa.

CHART I. *Relations of Net Farm Income, 1925–29, to Agricultural Property, 1929, per Agricultural Worker.*[1]

Farm incomes are low in the South because of the high ratio of man-power to resources. Each agricultural worker has too little land and capital working with him. The differences between North and South in this respect are very evident in Chart I, in which net farm incomes per worker and agricultural property per worker are shown in relation to each other. The two increase together at a rapid rate, from around $400 of net income and $1200 of property per worker in some southern states at the bottom, to $1400 of income and $12,000 or more of property in some western and midwestern states at the top. Iowa and Nebraska are still farther out on the scale.[1]

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[1] Reproduced from Chart 15 in the article previously cited in *Review of Economic Statistics.*

More industry in the South would raise the general level of incomes there—but only to the extent that factory wages there are higher than farm wages. Southern folk like to think that all they need to do is to utilize more fully their "undeveloped resources of soil, minerals, timber, water-power and climate" in order to provide good incomes for all their people. But the South would need to be almost twice as rich in resources as the rest of the nation to take care of its present multitudes. Migration of very large numbers of its workers North and West will help more than anything else to raise southern per capita incomes, both farm and non-farm; and with this the general national average of agricultural income. The war should hasten such migration.

The migration from southern farms normally needs to be more to northern and western cities than to northern and western farms. Many sections of the North and West have had too large a population on farms, since 1933 especially. Even the Great Plains area has many families farming with too limited resources; and this is especially true of older irrigated valleys, like those of Utah and New Mexico.

This migration has been too slow since 1933 because of the vast unemployment in cities. Some people have stayed on farms who normally would have gone to cities. Many who migrated to cities in the 20's went "back home" in the early 30's—half a crust of bread was better than no crust at all.

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[1] The 1940 data on gainful workers in agriculture are not yet available by states. They would change the chart very little.

With wartime production expanding apace, city enterprises can absorb several millions of these rural workers. The armed forces will take another fraction of them. Several years of war would go far toward bringing farm and urban population in proper balance to resources and opportunities for income.

The next responsibility will be to see that city industry and enterprise maintain a largely uninterrupted high level in the first five or ten post-war years so that the wartime migrants become really established as part of a stable urban economy.

* * * * *

In this chapter we have been able to establish no exact and conclusive measure of relative real incomes of farm and city workers. We are therefore still in the position of having to rely also in considerable measure on comparisons with some base period, and judging the base period against a background of long-period historical relationships. *Nevertheless, the facts presented in this chapter do support a general conclusion that in the base period, and in the long run, agricultural incomes have remained at too low a relative level.* The reasons advanced for this disparity are substantial and plausible, and add weight to the general conclusions.

## CHAPTER X

# *PARITY BY COMMODITIES*

Assume that the Parity balance has been tipped against agriculture since 1930, and assume a government undertaking to right it, a difficult and intricate task still remains of finding out how to do it. First comes the problem of determining the general amount of the unbalance and setting up some method of measuring it. Then the amount of unbalance must be determined for different agricultural groups and regions. Farmers themselves think of it first of all in terms of commodities, and so perforce must the practical administrator. But this need not and should not be the end of it. In this and three succeeding chapters, the problem of parity measurement is considered by commodities, by regions, and by systems of farming, and in terms of prices received and of net farm incomes. Following these are two chapters dealing with alternatives to the base-period type of measurement.

That parity prices figured on the same base period for all farm products will not be equitable, nor really workable, was recognized almost from the start. How for that reason tobacco was given a special base period in the original Adjustment Act has already been explained; likewise how the most recent legislation has permitted "comparable prices" to be figured in terms of a recent base for essential non-basic products whenever conditions of supply and demand have changed importantly since 1910–14.

However, parity prices for cotton, corn, wheat, and rice are still tied to the 1910–14 base, and the disturbances arising therefrom have played a large part in the recent history of parity legislation. In general, the procedures followed by the commodity groups feeling aggrieved have been to get some base period permitted as an alternative that would give a higher parity price for their product, or else abandon parity for their products altogether. The general effect of this has been to raise the general level of parity prices to that of the highest on the 1910–14 basis, instead of bringing the highest down to the average level of the group, as would seem to be the more appropriate.

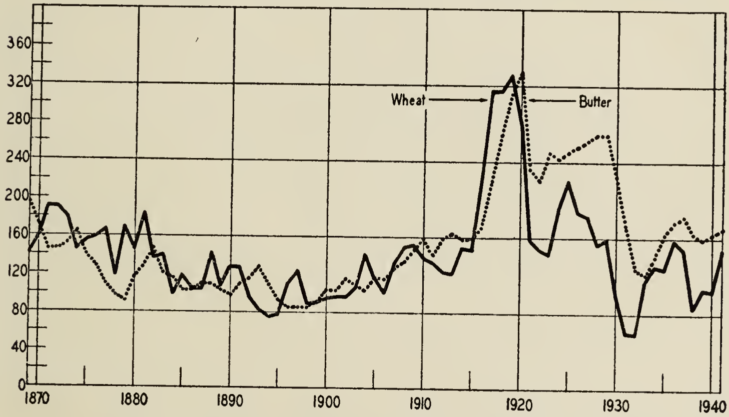

CHART I. *Movements of Butter and Wheat Prices Compared, 1869–1941.*

(1890–99 = 100)

The developments which affect different products each in their own way enter partly by way of supply and partly by way of demand. The former may lower costs, as does the introduction of new machines, or the opening of new lands, or improvements in varieties. Or they may raise costs, as does a rise in wages or the spread of some plant pest. Developments that enter by way of demand include such things as loss of export market, increase or decrease in consumer buying power, and changes in consuming habits. The effects are partly on prices received and paid, and partly on the quantities produced, or quantities used of such expense goods as hired labor, fertilizer, machinery, gasoline, etc.

The significance of possible changes in the conditions of supply and demand are well illustrated in Chart I by the relative movements of butter and wheat prices from 1869 to 1941. From 1869 to the World War, the two commodity price series moved in the same orbits. After that, wheat prices declined—the Plains were being opened up to the tractor and later to the combine harvester. *Supply* factors were at work. In the same period butter prices rose, mainly because of the greatly increased purchasing power and demand of the working classes. The two series therefore diverged sharply from 1925 to 1929. From 1932 on, wheat prices had the help of some dry years plus AAA production control.

*Average Actual U.S. Farm Prices*[1]

| | 1870–79 | 1890–99 | 1910–14 | 1919–20 | 1935–39[2] | March 1942 |
|---|---|---|---|---|---|---|
| Wheat—per bushel | $1.07 | $.66 | $.88 | $1.33 | $.81 | $1.05 |
| Corn—per bushel | .44 | .35 | .64 | .89 | .66 | .78 |
| Cotton—per pound | .15 | .08 | .12 | .21 | .10 | .18 |
| Rice—per bushel | 1.18 | .76 | .81 | 1.27 | .73 | 1.69 |
| All tobacco—per pound | .08 | .07 | .10 | .19 | .19 | — |
| —Burley | | | .11 | .22 | .22 | .29[3] |
| —Flue-cured | | | .13 | .24 | .23 | .28[3] |

[1] The averages for 1910–14 and 1919–29 are taken from recent lists published in *The Agricultural Situation*. The averages for 1935–39 were computed directly from national averages. They are not likely to agree exactly with averages that may be released subsequently by the USDA.

[2] These differ from averages published in *Materials Bearing on Parity* in that they do not include parity and other government payments.

[3] Seasonal averages—monthly prices are very erratic.

*Index Numbers of Above on 1910–14 Base*

| | 1870–79 | 1890–99 | 1910–14 | 1919–29 | 1935–39 | March 1942 |
|---|---|---|---|---|---|---|
| Wheat | 122 | 75 | 100 | 151 | 92 | 119 |
| Corn | 69 | 55 | 100 | 139 | 103 | 122 |
| Cotton | 125 | 67 | 100 | 175 | 83 | 150 |
| Rice | 133 | 94 | 100 | 157 | 90 | 209 |
| All tobacco | 80 | 70 | 100 | 190 | 190 | |
| —Burley | | | 100 | 206 | 206 | 264 |
| —Flue-cured | | | 100 | 186 | 178 | 215 |
| Average of five products, weighted | | | 100 | 154 | 104 | |
| All farm products [1] | 87 | 63 | 100 | 155 | 106 | 147 |

[1] The Bean-Strauss "ideal" price series for all farm products was used in constructing these averages.

The application of the foregoing to the five basic products is revealed by the accompanying tabular comparison. In the upper part of the table, the absolute prices are given; in the lower part, the index numbers for these prices on the 1910–14 base.

It is apparent at once that the prices of these farm crops move together very unevenly. In the 1919–29 period, tobacco and cotton prices were much farther above 1910–14 than were corn and wheat prices. Burley and flue-cured tobacco are very high in the most recent period, 1935–39, and corn is well above the other three. Cotton, wheat, and rice have all been on an export basis in recent decades, and export prices have been low. All five of these prices have been raised more or less by government loans and output controls since 1933.

One would be disposed to say that not even an average of the erratic movements of these farm products would be a safe guide for an agricultural price policy. But it happens that the two series shown in the two bottom rows in the table run closely together much of the time. This becomes a matter of importance in the analysis of "comparable prices" in a later chapter.

Given such erratic individual commodity price movements, the choice of a base period becomes highly determinant. In the table accompanying, parity prices are figured for four different base periods, all but the last of which is now being used for some product:

*Actual Prices, February, 1942, and Accompanying Parity Prices According to the Following Base Periods:*

| | Actual price | 1910–14 | 1919–29 | 1935–39 | 1870–1941 |
|---|---|---|---|---|---|
| Wheat | $1.05 | $1.30 | $1.23 | $.97 | $1.24 |
| Corn | .77 | .94 | .83 | .78 | .74 |
| Cotton | .18 | .18 | .20 | .12 | .15 |
| Rice | 1.62 | 1.20 | 1.11 | .88 | 1.23 |
| All tobacco | | .15 | .18 | .23 | .16 |
| —Burley | | .16 | .21 | .26 | |

Parity prices for cotton would be highest on a 1919–29 base, such as is now used for fluid milk. It is easy to see why some of the southern senators have wanted 1919–29 used as a base for all farm products, and why wheat, corn and rice farmers had other ideas.

Battling over a choice of base years may thus become merely a struggle for commodity group advantage—just as the old battles over tariff duties used to be. The usual outcome of such battles was a series of log-rolling deals in which each group agreed to help the other get all that it wanted, and the national interest was largely ignored. As Senator Hiram Johnson once said, in effect, at such a log-rolling bee: "You folks back East can have all the duties on dairy products you want, so long as you vote me the duties on almonds, walnuts, raisins, lemons and eggs that my people in California want."

"Is that statesmanship, Senator Johnson?" inquired a fellow Senator, "You know you are one of the few people left in Congress who are still sometimes dignified with the title of statesman." (This was back in 1921.)

Senator Johnson's reply in effect was: "I don't care whether it's statesmanship or not. It's the way tariffs are made. My people want these tariffs. I am their spokesman in Congress. Their votes will elect or defeat me in November."

By a very similar log-rolling process has the choice of parity bases and the division of parity payments been voted in all the sessions of Congress since about 1937. Having already been granted, in the various approved amendments to the price control bill, the particular ceiling bases that would permit the prices of their products to rise the most possible with any show of reason whatever, the cotton, rice, tobacco, corn, and hog and beef producers had no choice but to go along with the dairy and wool growers in the scheme set up in the O'Mahoney amendment.

But do parity price determinations need to be left to congressional log-rolling? Or can objective standards and measures be set up that will enable Congress and the administrators to determine reasonable and comparable parity levels?

Even if such standards were set up, would Congress abide by them?

Supposedly the flexible clause of the tariff legislation provided such a standard for determining customs duties. But Congress was never really willing to let it operate, for each new Congress had to write a new tariff act without any real regard for the flexible provision standards. For example, two Tariff Commission studies of the differences in cost of production of winter tomatoes in Mexico and the United States furnished no excuse for any tariff duty whatever. So the next Congress voted such a duty anyway. Sugar tariff history was much like this.

Perhaps it was because these flexible standards were "phoney"—and if they had been good, they would have been observed! Few will believe so—certainly not the writer.

The three succeeding chapters will contain considerable analysis that bears on the possibility of reducing parity to an objective basis. In the meantime, the reader will note that applying the historical test of a long-run average of 71 years (1870–1941) as a base, as in the last column of the table above, would lower the parity price below that on a 1910–14 base, for all but rice and tobacco, and for cotton and corn the most. If the historical test of a *trend* from 1910–14 to 1935–40 were applied, all would be lowered but tobacco—cotton the most, and corn next. This suggests that all prices of these basic crops have been affected by conditions of supply and demand that have lowered their prices relative to the general price level, and to prices paid by farmers, in spite of all the price-raising efforts of the AAA program. The high position of cotton on the 1919–29 base is due to the fact that production had not then adjusted itself to the boll weevil. Its low position on the more recent base is due to the weakness of the export market for American cotton.

## CHAPTER XI

# *THE GEOGRAPHY OF PARITY*

Procedures might be devised that would establish parity in terms of prices received for the various crops; but these might leave in much disparity the different sections of the country in which a crop is produced. Technological and other developments may affect very diversely various parts of the country. No one base period, nor any combination of them, can give anything more than a rough fit for this complex pattern of regional agricultural developments.

Furthermore, though the scheme of price adjustment adopted might allow precisely for the varying changes by crops and regions in the supply and demand factors, it could still leave very different the real incomes of the producers of the several crops and livestock products, and of the farm families of different areas. There would, in fact, be wider gaps between the real incomes of the cotton growers and the orange growers, or the ranchmen and dairymen, than between the farm and city families of Ohio, or even between the cotton growers of Alabama and the city workers of Des Moines. After all, the incomes of these were widely apart in the base period 1910–14, and they would be just as much apart if all was raised to 1942 parity. If parity between farm and city incomes is an object to be sought earnestly, then surely no less is parity between the farm families of Alabama and of Iowa. This chapter will consider parity between regions and areas; first, in the usual sense of relgation to particular base periods, and then at the end, in terms of absolute differences in real income, as was done in Chapter IX for farm and city.

* * * * *

Index numbers of prices received by farmers have now been worked out for most of the states by economists or statisticians in these states. Forty of these are now published each year in the February 1942 issue of *Farm Economics* of Cornell University. In the accompanying table on Parity Ratios by States and AAA Regions, the ratios of these index numbers of prices received to the national index of prices paid by farmers, including interest and tax payments, are presented for three significant periods: for 1925–29, when the agriculture of the nation was at its highest peak of prosperity since the last World War; for 1931–32, when it was at its lowest ebb; for 1937–40, the most recent series of years for which the index numbers are available; and for 1941. The index number for one year may be very erratic for some states—for Maine, for example, depending so largely on the highly variable potato crop.[1]

Back in 1925–29, the five major regions of the United States taken as a whole were fairly well in line with each other, the range being from 88 and 89 in the West and South, to 97 and 98 in the East Central and Northeast.[2] In the depression of the early 1930's, the range widened greatly, the regions depending upon export markets being hit hardest. In 1937–40, the bottom and top were getting

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[1] These state index numbers mostly use only data assembled on a common basis by the USDA, and mostly also the same index number formula. Hence they are approximately comparable.

[2] The regional division followed here is that adopted for the administrative set-up of the AAA. It is better suited to agriculture than the census divisions. Tobacco is an important crop in the East Central division, cotton leads in the South, wheat, range cattle and sheep in the West, and corn and hogs and cattle in the North Central.

### *Parity Ratios by States and AAA Regions.*

| States | 1925–29 | 1931–32 | 1937–40 | 1941 |
|---|---|---|---|---|
| *Northeast* | | | | |
| Maine | 100 | 70 | 84 | 82 |
| New Hampshire | 98 | 89 | 93 | 93 |
| Vermont | 101 | 87 | 97 | 105 |
| Massachusetts | 88 | 83 | 84 | 84 |
| New York | 97 | 75 | 85 | 92 |
| New Jersey | 103 | 84 | 97 | 103 |
| Pennsylvania | 100 | 82 | 96 | 99 |
| Average | 98 | 81 | 91 | 94 |
| *North Central* | | | | |
| Ohio | 96 | 63 | 86 | 94 |
| Indiana | 86 | 59 | 82 | 90 |
| Illinois | 89 | 60 | 85 | 92 |
| Michigan | 100 | 66 | 89 | 97 |
| Wisconsin | 95 | 65 | 87 | 101 |
| Missouri | 91 | 62 | 84 | 95 |
| South Dakota | 89 | 57 | 85 | 92 |
| Minnesota | 91 | 59 | 82 | 90 |
| Iowa | 92 | 62 | 89 | 98 |
| Nebraska | 92 | 59 | 88 | 96 |
| Average | 92 | 61 | 86 | 94 |
| *East Central* | | | | |
| Delaware | 97 | 78 | 87 | 86 |
| Maryland | 105 | 94 | 97 | 104 |
| Virginia | 93 | 67 | 88 | 98 |
| West Virginia | 96 | 75 | 85 | 86 |
| North Carolina | 92 | 58 | 78 | 90 |
| Kentucky | 101 | 69 | 104 | 105 |
| Tennessee | | | 81 | 90 |
| Average | 97 | 73 | 89 | 94 |
| *Southern* | | | | |
| Georgia | 83 | 52 | 68 | 81 |
| Alabama | 91 | 52 | 71 | 89 |
| Mississippi | 93 | 52 | 71 | 92 |
| Louisiana | 91 | 55 | 71 | 86 |
| Arkansas | 89 | 50 | 69 | 86 |
| Oklahoma | 91 | 51 | 75 | 88 |
| Texas | 88 | 50 | 73 | 89 |
| Average | 89 | 52 | 71 | 87 |
| *Western* | | | | |
| Idaho | 94 | 57 | 79 | 85 |
| Kansas | 90 | 56 | 84 | 91 |
| Nevada | 96 | 67 | 92 | 106 |
| North Dakota | 87 | 48 | 76 | 76 |
| Oregon | 67 | 58 | 79 | 86 |
| Washington | 88 | 57 | 72 | 82 |
| Montana | 84 | 53 | 78 | 81 |
| Utah | 92 | 68 | 89 | 94 |
| Wyoming | 92 | 63 | 90 | 100 |
| Average | 88 | 59 | 82 | 89 |
| United States | 92 | 65 | 83 | 93 |

nearly in line again; in 1941 they had almost completely done so. But wide differences between individual states still remain. Kentucky and Vermont were at 105 in 1941, North Dakota was at 76, Georgia, Montana and Washington were at 81 and 82, and several states were at 84, 85, and 86.

If some other base period than 1910–14 is taken as equal to 100, the relative position with respect to parity of the different regions and states would be changed as indicated in the accompanying table. Thus if 1919–29 had been taken as the base period, and for all products, the southern states would have found themselves getting 90 percent of parity prices for their products in 1941, as compared with 87 percent of parity on the 1910–14 base—that is, they would have appeared to be 3 points nearer to parity. The North Central states would have appeared to be already 7 points over parity in 1941, and the Western states exactly at parity. The South could still claim a right to some benefit payments, but not the Corn Belt. However, for the years 1937–40 as a whole all of the regions would still have been comfortably below parity, the South still very much so.

*Price Parity Ratios for 1937–40 and 1941 with the Following Base Periods, by AAA Regions:*

| | 1910–14 | | 1919–29 | | 1935–39 | |
|---|---|---|---|---|---|---|
| | 1937–40 | 1941 | 1937–40 | 1941 | 1937–40 | 1941 |
| Northeast | 91 | 94 | 94 | 97 | 108 | 102 |
| North Central | 86 | 94 | 93 | 107 | 116 | 103 |
| East Central | 90 | 95 | 92 | 97 | 97 | 102 |
| Southern | 71 | 87 | 73 | 90 | 93 | 114 |
| Western | 82 | 89 | 92 | 100 | 97 | 105 |
| United States | 84 | 93 | 90 | 101 | 96 | 107 |

If the parity base period were to be shifted to the more recent period, 1935–39, as has already been done for two types of tobacco, and might be done for other products under some "comparable price" formula, all regions would appear to have averaged over parity in 1941, the South most of all—this latter because cotton prices have risen more than most others since 1935–39.

The single states that in 1941 would have appeared most above a parity on a 1919–29 base would have been Wyoming and Nevada in the West, and Iowa and Nebraska in the Corn Belt; the ones farthest below would have been Maine and Massachusetts in the Northeast, and all the strictly cotton states in the deep South.

Using the 1935–39 base would still leave Maine, New Hampshire, Massachusetts, North Dakota and Montana below parity. The Corn Belt states would be mostly just above parity, and the leading dairy states from 5 to 12 points above it.

Such a display as this should leave little doubt in anybody's mind that if parity price determinations are not going to be reduced to some reasonably objective standard basis, they are bound to be little more than the outcome of sectional and commodity political maneuvers.

* * * * *

Parity ratios such as the foregoing, moreover, fall far short of being reasonably accurate guides to the extent of the maladjustment of the agriculture of the different regions and states. They all use the same nation-wide uniform index of prices paid. They assume that one average index of prices paid will fit all parts of the country—in other words, that the articles farmers use in their production, and that farm families use, have changed exactly in parallel everywhere, and likewise the prices of them, since way back in 1910–14! To be more specific, that the changes in the use and in the prices of automobiles, tractors, trucks, power machinery generally, fertilizers and purchased feeds, and in interest and tax payments, have been at the same rate in all areas; and similarly for the articles used in the home.

The workers in the USDA know that separate index numbers of prices paid are needed for different producing areas, but have not yet had the time and resources to compute them. In the meantime, we go on using a very unsatisfactory makeshift. Two states only have made a beginning along this line—Wisconsin and Montana.

As already explained, the rapid rise in farm wages in the last year has led to a demand for their inclusion in the index of prices paid. But wage increases have been very spotted, and any index including wages would need to be adjusted locally. The author recently received on the same day two letters about wages from farmers. One came from a tobacco section in southwestern Virginia where two large munitions plants are under development or operating, the other from an area in Wisconsin where local plants are closing because of priorities and no war orders. The first farmer said that parity prices were needed which would include wages high enough to compete with war industries; the other said that the labor supply was ample and that wage rates were not now rising.

Whether an adjustment program could vary prices locally strictly according to local indexes of prices paid, including wages, is much to be doubted. But some other kind of adaptation of programs could be developed. In any case, administrators of programs should know about such situations and have good measures of conditions in them. In wartime we may even have to meet local costs to obtain needed supplies of some farm products.

* * * * *

The procedure of announcing prices in advance at parity or comparable prices has raised some difficult problems relating to the geography of parity. The statutes and the proclamations speak of "location" and "grade" differentials. But thus far, very few location differentials have been announced. In consequence, the producers of eggs, peanuts, soybeans, flaxseed and the like do not really know what prices they can expect in their territory. At the outset, many farmers assumed that they would all alike get the price announced, regardless of location. When they learned that this was not so, thirty farmers in one poultry area called up their hatcheries in one day and cancelled their orders for chicks.

A strict application of parity locally would mean that producers in any territory would get just as much less than the price in a central market, such as Chicago, as in some other one nearer to market, as they received in 1910–14, or some other base period chosen. Obviously here is one of the several departures from strict parity that are required. If costs of transportation and handling have lessened location differentials since 1910–14, this should be recognized. In the case of "comparable" price commodities, the law probably can be understood as requiring this, although it specifies only conditions of production and consumption. The best way to calculate the announced price for a locality will be to compute it for the nearest large market for which price data are on record, and then subtract the current transportation and handling charges involved in getting the product to market.

Obviously it will not be possible to proclaim separate prices for every little market in the country. But it could be done for a few score of secondary markets for such a product as eggs; or perhaps state averages could be proclaimed.

The associated problem of grade and class differentials has been dealt with in a release dated April 10, 1942, in which "market price equivalents" are presented for various classes and grades of cattle. The basic March farm parity price of $8.02 per hundredweight is here translated into an equivalent price in the Chicago market, and this in turn into nine equivalents by class and grade as follows:

| | | | |
|---|---|---|---|
| Beef steers: | | Cows: | |
| Choice and prime | $13.55 | Good | $8.10 |
| Good | 12.03 | Canners | 5.05 |
| Medium | 10.59 | Beef bulls, good | 7.70 |
| Common | 9.22 | Feeder steers, average | 9.46 |
| Heifers, good and choice | 13.02 | | |

The release explains carefully that these are not parity prices, that there is only one parity price, namely, the United States parity price based upon the United States farm price average. They are prepared only for the guidance of producers who may want to know what parity price would be like for a particular class and grade of animal.

The United States "average cost to packer" figure that goes with the United States farm parity price of $8.02 is $8.98. As an incident to this analysis, the March farm price parity is raised from $7.71 to $8.02 because of a recomputation of the 1910–14 base price with a better system of weighting.

* * * * *

When the point is reached at which agricultural programs can be adjusted between regions and areas intelligently, it will be on the basis of the full set of economic conditions affecting them; not just prices received and prices paid in each, but also quantities of products sold and of expense items bought. Only in this way can account be taken of the fact that more wheat is produced on one farm now than in 1910–14, and at the same time more power and less labor are used in producing a bushel of it. The parity ratios thus computed will be on an *income* instead of a price basis only.

A natural development will be for states to calculate such income parity series on a state-wide basis and then break them down according to type-of-farming areas in the state. None of the states has yet done this, although some of them are part way there. Dr. Wilfred Malenbaum, Mr. Harry Norcross, and the author, with the assistance of state workers, have computed such state-wide series for five New England states, for the years 1920 to 1938. Data are not readily available before 1920, and besides it is only a question of a little time until the parity base period must be shifted to more recent years, as already has been done in effect for most products. The base period used for these series was 1924–36, a long enough period to average out the irregularities of the good years of the later 20's and the bad years following. In the three charts following, I and II, and III, the relative position of the 1910–14 base period is indicated, for purposes of comparison, by Point A; of the 1920–29 base period by Point B, and of the 1935–38 base period by C.

In Chart I, index numbers of both receipts and expenditures are shown and then the ratios between these. Of the three types of farming reported, the Marshfield-Cabot type is almost pure dairying, the Enosburg type has a maple orchard enterprise as an important sideline, and the Vergennes type is more like a Wisconsin dairy farm, with much more of the dairy feed produced on the farm. The Vergennes type has been in the best condition since 1929; the Marshfield-Cabot type flourished in the 20's, when dairy feed prices were low relative to milk prices, but has been in

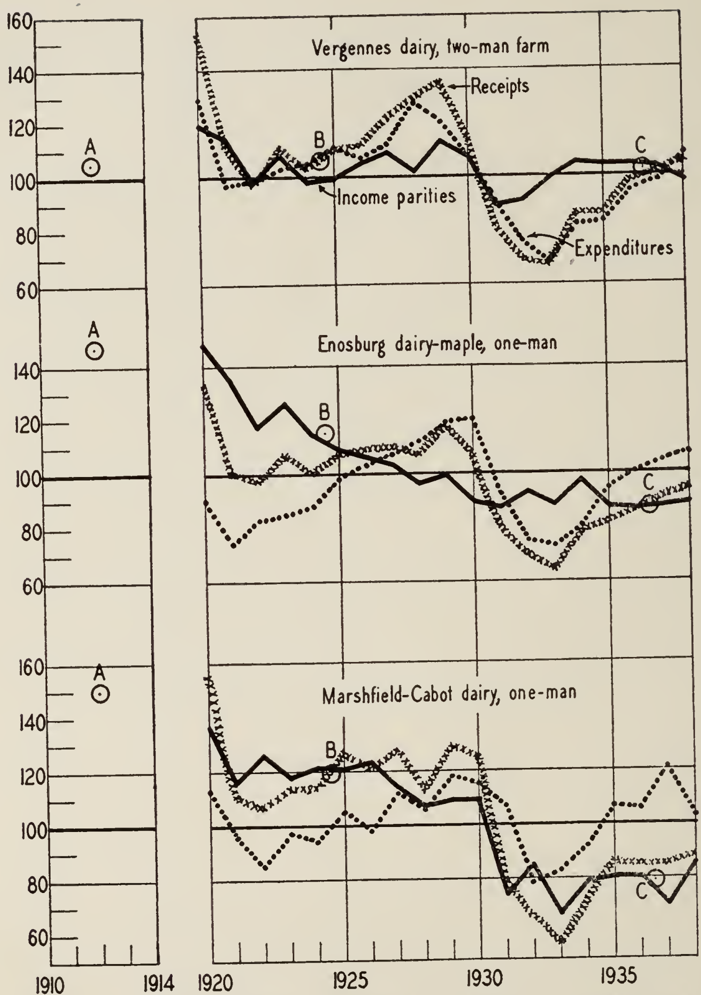

Chart I. *Index Numbers of Income Received and Expenditures on Three Vermont Types of Farms, Together with the Ratios between the Index Numbers, 1920–38.*

(1924–36 = 100. A is the relative position of the 1910–14 base; B, of the 1920–29 base; and C, of the 1935–38 base.)

eclipse since. The Enosburg type is somewhere between these two.

Point A on these charts indicates the average position of the income parity ratios for the 1910–14 period on the 1924–36 base.[1] Receipts and expenses in 1910–14 averaged the following percentages of the 1924–36 averages for the three types of farms.

| | Receipts | Expenditures | Income parities |
|---|---|---|---|
| Enosburg | 75 | 51 | 147 |
| Marshfield-Cabot | 75 | 54 | 139 |
| Vergennes | 59 | 56 | 105 |

For the Enosburg type, receipts in 1910–14 were 75 percent of what they are now, but expenses were only 51 percent.[2] Hence the income parity ratios stood at 147 on the 1924–36 base. This means that if 1910–14 were to be taken as the base, the income parities for 1924–36 would average 68. A figure comparable to the 68 for Marshfield-Cabot would be 72; and for Vergennes, 95. With the charts drawn in this way, one can tell at a glance, by noting the relative positions of Points A, B and C, what has happened to each type of farming since 1910–14.

It is the large increase in expenses that is responsible for the declines in the first two areas—the one-fourth more value of milk and other products sold has been produced with a doubling of the out-of-pocket costs. In the Vergennes area, the two have increased about in proportion.

If 1920–29 were taken as the parity period, as is common in fluid milk areas today, and was recently proposed for all products, all three of the farming types would still have

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[1] It has been possible to locate the A point only with rough approximation—the data on expenses and farm organization for 1910–14 are too sketchy.

[2] The general price level was of course lower in 1910–14.

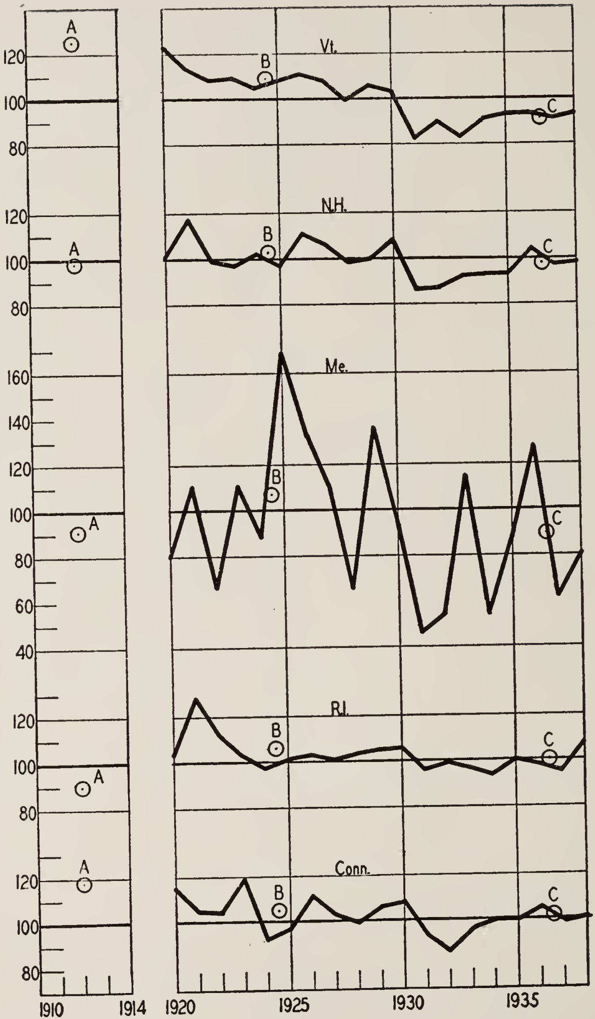

CHART II. *Index Numbers of the Parity Income Ratios for Vermont, New Hampshire, Maine, Connecticut and Rhode Island, 1920–38.*

(1924–36 = 100. A is the relative position of the 1910–14 base; B, of the 1920–29 base; C, of the 1935–38 base.)

appeared to be suffering reverses in the last years shown on the chart—the pure dairy type a good deal, the more diversified Vergennes type just a little. The relative trends in receipts and expenses have continued.

All three of these systems of farming are in the northern half of the little state of Vermont. In any particular series of years, wide variations in the prosperity of farming may thus be found within a short space. If the parity method of equalizing farm income is to be employed, a considerable task is involved in making it fit the map.

In Chart II just the ratios between receipts and expenditures are presented for each of five of the New England states. It has sometimes been proposed that parities be adjusted on a state basis. The differences between Maine, with its important highly variable potato farming, and the highly diversified city-type farming of southern New England, are strongly marked. Vermont, with its dependence almost exclusively on dairying, shows clear evidence of decline in prosperity in the 30's, but not the violent decline of the Corn Belt and the South.

Two important differences between these index series and the usual ones should be noted at once. First, they do not represent prices and quantities for a single farm product; instead they combine all the products actually produced on farms in each state. They are on a farm-unit and area basis, not on a commodity basis. This, of course, is the way most farming is actually organized. Second, the indexes of prices paid and of expenses represent only the farming end of the combined farm and family-living enterprise conducted on any farm. To convert the results to a farm-family basis, one would need index series of prices paid for the things purchased with net cash farm incomes, such as groceries, clothing, furniture, housing, medical care, educa-

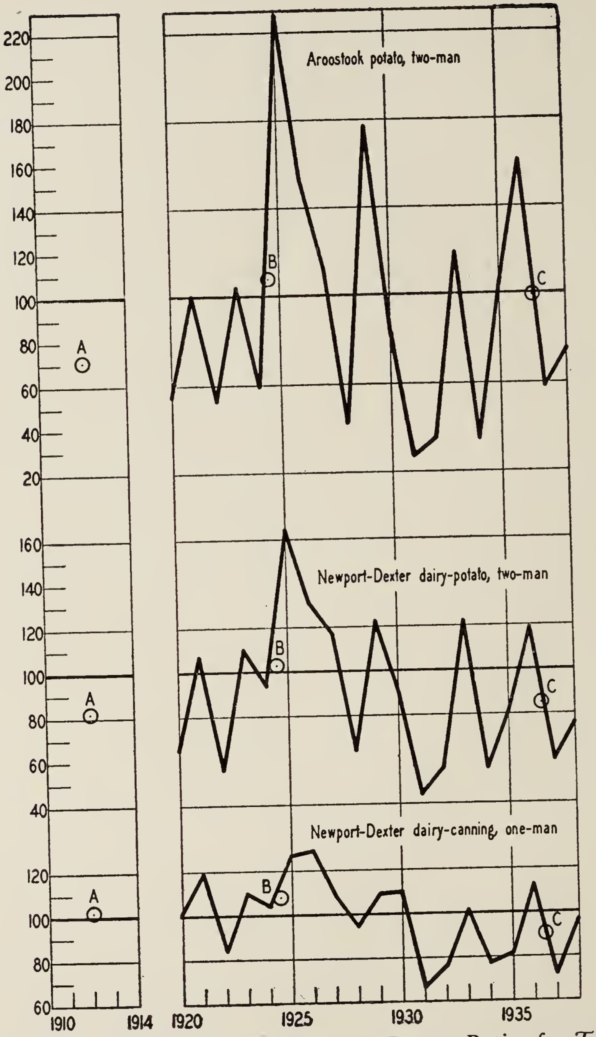

CHART III. *Index Numbers of Parity Income Ratios for Three Typical Farms in Maine, 1920–38.*

(1924–36 = 100. A is the relative position of the 1910–14 base; B, of the 1920–29 base; C, of the 1935–38 base.)

tion, insurance, automobile, recreation, etc. The bill of things bought of course varies by areas, and so should the index series.

That state series such as the above are not very useful for the important purposes which income parity ratios serve—because too many different systems of farming and sets of conditions are likely to be found within any one state—is still more apparent when the ratios for different types of farming for a state like Maine are examined. (See Chart III.)

The following percentages of receipts and expenditures for 1910–14 reckoned upon a 1924–36 base, with accompanying parity ratios, are highly significant:

| | Receipts | Expenditures | Income parities |
|---|---|---|---|
| Aroostook potato | 34 | 48 | 71 |
| Dexter dairy-potato | 50 | 61 | 82 |
| Dexter dairy-canning crops | 72 | 71 | 102 |

These figures say that the receipts of a two-man Aroostook potato farm averaged in 1910–14 only a third of what they did in 1924–36; expenses about a half, and net income only 71 percent. The Dexter farm type combining potatoes with dairying, in 1910–14 was 18 points below 1924–36 in income parity. The Dexter farm type with canning crops has increased its expenses and receipts about in the same proportions.

In the 1920–29 period, all three of these farm types were above the 1924–36 base; in 1935–39, two of them were seriously below it.

The Bureau of Agricultural Economics of the USDA has been working on similar lines for the past three years, and already has parity income series for a dozen of the major types of farming in this country. Their results are presented in the form of net farm incomes instead of income parity

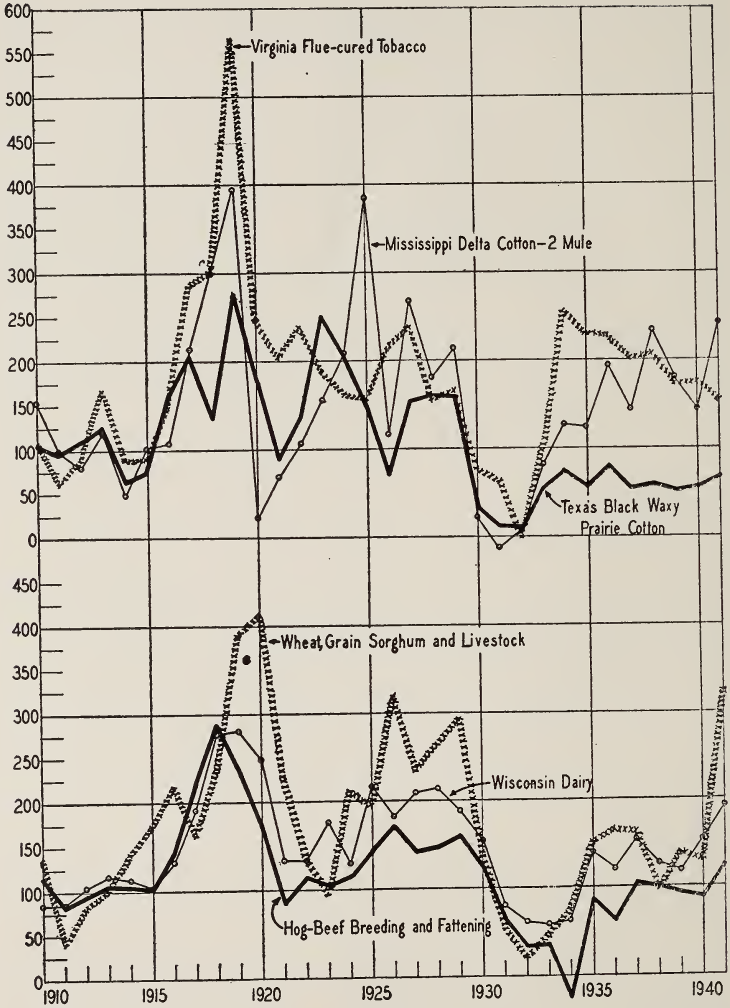

CHART IV. *Net Farm Incomes for 6 Systems of Farming, 1910–14.*

(1910–14 = 100)

ratios. These are merely two ways of saying the same thing, as will be apparent in Chart IV, in which the net farm incomes for six systems of farming are shown. Note particularly that these series are on the 1910–14 base. Wide disparity appears between the net incomes of the two cotton farms in the upper section of the chart—one is at nearly twice its 1910–14 level, and the other nearly halfway below it. The Wisconsin dairy farm has experienced none of the great bursts of opulence of the wheat-livestock areas but has done very well over the years, especially since 1935.

* * * * *

All that the index numbers of net farm income in Chart IV show is how such incomes have changed relatively to each other since 1910–14. Their incomes were widely different then, ranging from $215 for the Mississippi Delta cotton farm to $395 for the Virginia tobacco farm, to $890 for the Wisconsin dairy farm, to $945 for the wheat-livestock farm, to $1730 for the Corn Belt farm. The changes since 1910–14 have reduced somewhat the differences between the extremes, but they are still very wide.

These income figures are for selected types of farms, running in some cases larger and in some smaller than the averages for states and regions. Chart I in Chapter IX showed a range in net farm incomes per worker by states in 1925–29 from $400 to $1500. Per farm by major geographic regions, the variation was as given in the accompanying table, for agriculture's peak year before the depression. The second column lists average gross farm income for 1925–29.

The three southern groups of states average scarcely half as high incomes as the western. Off-the-farm earnings are not included in these averages. They might add from a third to a half in the Atlantic states, which have high proportions of part-time farming.

| Geographic Divisions | Net Farm Income [1] 1929 | Gross Farm Income [1] 1925–29 |
|---|---|---|
| East South Central | $720 | $930 |
| West South Central | 1,030 | 1,340 |
| South Atlantic | 940 | 1,540 |
| East North Central | 1,320 | 2,150 |
| West North Central | 1,920 | 2,770 |
| Middle Atlantic | 1,270 | 2,930 |
| New England | 920 | 2,700 |
| Mountain | 2,230 | 3,440 |
| Pacific | 1,930 | 3,320 |
| United States | $1,410 | $2,370 |

The high averages for the western regions, especially for the Great Plains states, are deceiving in some measure. Risks are high in this territory. Those who have the resources to survive them receive good returns year-in and year-out. The many who fail lose the capital they bring with them. These losses should be subtracted from the gains. The survivors must also operate large units, except in some of the irrigated valleys. The one-mule unit has no place on the plains.

That the methods employed since 1933 to raise net farm incomes directly have contributed little to equalizing them between regions, is apparent from the accompanying data on AAA payments by AAA divisions.

*Total AAA Government Payments per Farm.*

| | 1934–38 | 1939–40 | 1934–41 |
|---|---|---|---|
| Northeast | $ 64 | $ 69 | $ 172 |
| North Central | 460 | 308 | 868 |
| East Central | 169 | 102 | 317 |
| Southern | 372 | 294 | 773 |
| Western | 596 | 393 | 1,161 |

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[1] Source: "Agricultural Wage Relationships," in *Review of Economic Statistics*. May, 1936, p. 69.

The Western and North Central divisions, already highest in income, have received several times larger payments than the low-income divisions. The farms of the South, mostly devoted to cotton and tobacco, were helped to the extent of $74 per year in 1934–38. The supplementary parity payments made in 1939 and 1940 raised the Southern quotas to $147 per farm per year, which is a significant addition to a cotton farmer's income. The Western and Corn Belt states were still receiving the most direct aid in 1941. A few years ago, anyone calling attention to this circumstance would have been told that it was not the objective of the AAA to equalize farm incomes—that its purpose was to raise the *general level* of farm prices and farm incomes. More recently, as the general subsidy and relief nature of the AAA program has become more obvious, there have been some shifts in methods of distribution of the payments. On the one hand, certain minimum payments have been assured all participants in the AAA program; on the other, limits have been placed on the maximum subsidy to any one farmer. In this session of Congress, the House has already voted to lower the maximum from $10,000 to $1,000.

These direct payments are of course not all the benefits conferred by the AAA program. The prices of all five of the basic crops have been increased at least a little over what they would have been with no program. In recent years, the loan program has been a stronger influence on prices than has production control. These benefits, however, have been per bushel or per bale, and hence have contributed little to the incomes of the smaller farmers.

A possible way of equalizing the incomes of different regions is to pay out all the subsidies in low-income territory, and make them good and large. But this would require immense grants from the public treasury, and would leave the low-income farmers little farther along at the end than at the beginning. They would in the meantime have become pensioners, like the Indians on our reservations. Surely some more hopeful approach to the problem can be found. It is not the intent of this book to outline reform measures, but later chapters will contribute further analysis of the problems raised and offer some pertinent suggestions.

## CHAPTER XII

# *ALTERNATIVE PARITY STANDARDS* [1]

Our men of agricultural affairs may be devoutly attached to the parity standard. But in some way or other they have allowed the standards written into the laws and the administrative practice to deviate considerably from it, and recently to desert it completely on occasion. This suggests, on the one hand, a possible abandonment of it altogether in the near future, and on the other a possible restatement of it in workable terms. The "comparable price" provision in the 1941 legislation may indicate the general form of such a restatement.

The granting of discretion, in the early form of the Act, to the administrators to approach parity prices at only as rapid a rate as "feasible" might be looked upon as one form of deviation from a strict parity standard. Likewise the first definitive provision for loans allowed a latitude of from 52 to 75 percent of parity. This again was at the insistence of the administrators.

But as the farmers and their Congressmen became aware that these loan percentages really fixed prices by setting minimums that tended to be maximums, they began clamoring for higher percentages. In the winter of 1940–41, the Farm Bureau Federation was demanding loans at 90 percent of parity, and the following summer at 100 percent of parity. The new amendments actually provided for 85 percent. All of this was driving closer to a parity standard, and seemed on its face to fix such a standard more firmly.

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[1] Mr. Marion Clawson, resident consultant in 1942 in the Littauer School of Public Administration of Harvard University, assisted with the analyses in this chapter.

Even while this was going on, however, the standard itself was beginning to melt away. The basic idea of a purchasing power of farm products such as maintained in 1910–14 was in part abandoned in the very first statute when tobacco prices were given a 1919–29 base. There was little of logic in such a departure from the standard so far as "purchasing power" was concerned. The tobacco growers already had more of it than they had had in 1910–14. It was done because tobacco prices were already well above parity on a 1910–14 base, and only by such an arrangement could tobacco farmers share in the subsidy. Cotton farmers could share it even with a 1910–14 base; but a 1919–29 base would have given them a still higher parity price. It would almost seem as if they had waked up too late, as if Senator Thomas was not really on to his job back in 1933!

Having broken away once from the purchasing power parity doctrine for tobacco, it was easy to do it again in 1940. Why the cotton growers couldn't have obtained a shift to the 1919–29 base at the same time is not easy to understand. The dairy farmers achieved it for milk.

Finally in the Price Control Act of 1942, we have the spectacle of a complete abandonment of the parity principle in the case of beef, veal, lamb, wool, butter, chickens, turkeys, sugar cane, rice, beans and potatoes and all those products for which any one of the three following at any time would give a higher price: (a) average of 1919–29, (b) October 1, 1942, (c) December 15, 1942. Not a word is said about purchasing power or parity for any products meeting one of these descriptions.

And most of them would have come under one or more of these heads at once except that the Act permitted 110 percent of parity, figured on whatever base period is authorized, also to be the ceiling in any case it proves higher. It has been higher for all the grains and flaxseed and for hogs and peanuts.

It must be admitted that these provisions relate only to ceilings, and not to levels at which the government will attempt to sustain prices by loans, purchases and diversion. But we are fast moving into a period when the ceilings on all but a few farm products will establish their level. Hence, in effect, parity is abandoned so long as war demand for farm products continues. The 110 percent of parity ceiling may be considered as still attached to parity; but if so, then at some distance.

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Now we come to comparable prices and parity. The Steagall Amendment, it will be recalled, instructs the Secretary of Agriculture to use his loan, purchase and other prerogatives to support prices of non-basic products at not less than 85 percent of "parity or comparable prices therefor." These comparable prices may be used in place of parity if the "extent and character" of production and consumption of the product have changed since the base period so that prices are now *out of line with parity prices* for the basic commodities.

The Price Control Act provides, in turn, that ceilings may not be set below 110 percent of the comparable price "in lieu of parity." This means, in effect, that if a comparable price can be figured out, with some show of reason, that is higher than parity price, it may become the ceiling.

However, changes in the extent and character of consumption and production may work either way—to raise prices or to lower them. They have very obviously worked to lower the price of cotton since 1929. The world abroad does not want as much American cotton as it did. Nor as much United States wheat, or corn and hogs. As demand has declined, the costs of production have declined; they had to, for only thus could their production keep going. The high-cost producers have had to shift to some other product, or reduce their out-of-pocket outlays in one way or another. Improvements in production methods such as cheaper power, hybrid seed corn or better feeding practices have worked to the same end of lower prices from the other direction.

Not only have most of the basic crops been affected in this way, but also part of the non-basic products.

*It never has been the intent of Congress that a lowering of prices in the foregoing ways was to affect parity prices for the five basic crops.* In fact, there is specific provision in the law to the contrary. As for the others, the statute seems to permit adjustments either way, when their prices are "out of line with parity prices for the basic commodities" because of changed conditions of supply and demand.

Just what "out of line with" means, however, is not clear. The Department of Agriculture gave one interpretation to it when it determined the announced minimum prices for dry peas, and peanuts and soybeans for oil. But it has not yet committed itself to following these same procedures generally. Following is the published description of the method used.

"In keeping with the language of section 4 of Public Law No. 147, Seventy-seventh Congress, base prices from which comparable prices for soybeans and peanuts for oil may be computed currently were determined by dividing the average price for each commodity in the period August 1934–July 1939 by two factors: (a) the average percentage ratio of prices for the five basic agricultural commodities to their parity prices in that period, and (b) the average index number of prices paid by farmers for commodities purchased, including interest and tax payments (1910–14 = 1.00). These two factors were combined (.79 × 1.30) to give a single divisor of 1.03.

"Dividing the average price of a given commodity by 0.79 raises the price, in effect, to a fair parity relationship with the parity prices for the basic commodities in the 1934–39 period. Dividing by 1.30 merely translates the adjusted price back to the pre-war, 1910–12, base period.

"The calculation of comparable prices currently from the 1910–14 base price is the same as the calculation of parity prices for most commodities. That is, the 1910–14 base price is multiplied by the current index number of prices paid by farmers for commodities purchased, including interest and tax payments. In mid-January 1942, this index number was 146, or 46 percent higher than in the 1910–14 period."

The reasons for choosing the 1934–39 base period for these products is probably indicated by the statement given out for peanuts and soybeans.[1]

"The 5 years August 1934-July 1939 were selected for determining the base prices for peanuts for oil and soybeans mainly because prices in that period represent as nearly as possible the normal relationships among prices of the commodities involved under conditions of production and consumption recently existing. This period antedates the present world conflict and coincides with the most recent base period selected by Congress for use in making parity price computations (flue-cured and burley tobacco.)"

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[1] The actual method of computation of the base price for peanuts, soybeans and peas was to divide their average price in the period 1934–39 by 1.03, this being the composite of the average index of 130 for *prices paid* in those five years and of 79 as the average percentage of parity price that prevailed for the five basic products in those years. (.79 × 1.30 = 1.03) These base prices are multiplied by the index of prices paid, for the current month, just as is done with the base prices of the basic products. Thus the comparable price for a product is tied to a "fair parity" equally with the five basic crops; it also changes from month to month with the changing index numbers of prices paid.

Should this method of determining comparable prices be continued and applied to other non-basic products, it would mean that the levels at which public aid would be used to support their prices would have a bottom frozen at 1934–39 levels of relationship between prices of basic and non-basic products, and between different non-basic products, instead of the 1910–14 for the five basic crops. These relationships are of course much more nearly in line with current conditions of costs, consumption, and competition on markets than those prevailing a quarter century ago. Parity prices so determined would provide a structure of relative prices for the different products that reflect prevailing cost and market relationships, as nearly as a five-year average can. The structure of prices resulting would be more nearly workable than that now set up for the basic products. But it would still have some fundamental deficiencies from the point of view of effective administration. Such a structure for non-basic products, combined with one for the basic products based mainly on the old 1910–14 prices and income relationships, would create a hodgepodge of price architecture as insecure as a bridge that tried to combine the suspension principle with two or three others at the same time.

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To comprehend the full meaning of the last statement, we need to bring together at this point, by way of summary and review, the several basic ideas relating to parity that have been developed in our analysis thus far.

The most fundamental of these is that a goal is set which is in terms of a relationship between farm and non-farm prices which existed back in 1910–14, and that this was a period when the relationship between prices and wages was seriously against the wage worker. Our analysis suggests that the wage and price relationship existing in 1922–29 would be more nearly in line with normal. If there is a general basic disadvantage under which agriculture has been laboring over the past 75 years or more, some more fundamental procedure will need to be followed than setting up parity levels that either cannot be sustained, or if sustained, commonly do more harm than good before long.

An almost equally serious difficulty is that the emphasis is upon parity *prices* rather than upon some reasonable parity *income.* The price version of parity fails to take account of changing amounts of urban employment per worker, and of changing volume of output and expense per worker on farms. Our analysis suggests that an income parity, either per worker engaged or per capita of respective populations, and in terms of 1922–1929 base period, would approximate the normal trend of relationships between agricultural and non-agricultural real income. The incomes of non-agricultural workers in the 1922–29 period were 30 percent higher, in relation to agricultural worker incomes, than in the 1910–14 base period. If a parity *income* concept is adopted, there may still be serious difference of opinion as to the prices which are likely to approximate it more closely, but at least the objective is a more rational one.

When the goal of parity income for agriculture has been defined, there still remains a difficult problem of price and income relations between the various commodities. The shift to "comparable" instead of parity prices does not lessen the seriousness of this problem. The 1910–14 base has proved objectionable, on the ground that during this period the prices of some products were higher than normal and other prices were lower. Even as many as five years may give an unusual average because of special conditions in these particular years. Cotton prices in the 1920's are a good example. A longer series of years would seem better in some cases; but the longer the series of years, the less likely it is to fit the current situation. The New England parity income ratios in Chapter XI, based upon 13-year averages, illustrate this nicely. The trend lines for the Vergennes and the Marshfield-Cabot areas run at very different angles during these years. In these rapidly changing war and post-war times, this will happen frequently. It has therefore been proposed by some that a moving average be used, with each year a new one added on in front and an old one dropped behind.

Any automatic or semi-automatic determination of the parity price gives an opportunity for one or two abnormal years to influence prices for as long a period as it is included in the base. Thus the war years will be felt for as many years after the war as there are years in the base period. To permit one abnormal year, perhaps an unusual drought, to exercise a material effect on the parity price for perhaps a decade is a serious defect.

Still another major problem confronts the administrators of any continuing program: the prices in any recent base period will reflect to a greater or less degree the effectiveness and objectives of the program in recent years. Burley tobacco prices, for example, have been much more effectively supported since 1933 than have most other prices. It is highly probable then that any program will vary in effectiveness. To use the prices in one period as a basis for the program in the next period may be an excellent way of implementing the old Biblical edict: "To him that hath, shall be given; and from him that hath not, shall be taken away even that which he hath." There may be no escape from this circuity if a mechanical or automatic formula for parity be adopted.

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Most agricultural statesmen have realized for some time that the present methods of determining parity prices are working badly, and are not only causing a vast amount of confusion and conflict among farm groups, but are fast causing the parity standard itself to be discarded. Several committees have been appointed to set up a new basis for the parity standard, but none of them has produced anything that has won general support. The writer is not proposing to offer any one particularized substitute for the present method, but will describe several which are likely to give price relationships that will work better in operation than the present ones.[1]

First let us get a clear idea of what the specifications are of a good parity standard.

1. It should reflect approximately the current *normal* production, consumption and market-price relationship between different farm products. This means, on the one hand, not the relationships of the years before the tractor-combine was introduced, or hybrid seed corn or soybeans came into wide use; or before women began to smoke; or the Russians and Brazilians to grow their own cotton. On

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[1] *Materials Bearing on Parity* in its concluding pages offers three alternative methods for consideration. They represent combinations of parity prices and parity income and of the base periods 1910–14, 1920–29 and 1935–39. None of these is exactly like any one presented here.

the other hand, it means not the temporary relationships of a particular short run of years produced by a succession of droughts, or disease infestations, or a war.

2. It should reflect a normal relationship between farm income and other incomes—one that is supported by fundamental conditions of supplies of farm workers and resources and agricultural products as set over against comparable conditions in industry and trade. A parity standard that is set much above this level cannot be sustained except to a limited extent for a few years, or for a few special products, unless a war or some special event comes along to help it out—at least not in a country in which a considerable measure of economic freedom is still preserved. This is one clear lesson to be derived from the attempts to establish an unreal parity standard since 1933. If normal farm income and other income relationships, so defined, are not acceptable to either group, it will be necessary to change the fundamental conditions of supply of workers, resources and output. Ordinarily this can be achieved only rather slowly, but a war may bring much of it to pass in a few years.

3. The foregoing is not to be interpreted to mean that current normal income and price relationships must be accepted exactly at their face value. Generally they can be distorted in the desired direction in such a way as to hasten the needed fundamental changes. But the distortion must be moderate and gradual.[1]

This points to the need for careful observation of trends. A distortion that fits in with a trend will accelerate it; one which does not, can do nothing much more than retard it. Most trends reflect basic changes in normal relationships, but not all of them. Parity standards must recognize these differences.

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[1] Minimum wages illustrate this principle. If they are set moderately above previous levels, they will produce desirable readjustments; if set too high, they will produce unemployment mainly.

4. Parity standards are better if they can be applied automatically and objectively, and if they can be readily understood. But one is not likely to find a standard that meets these last specifications and the other three named. Especially will it be difficult to find a standard which recognizes the principle of the *normal* and of the *trend* which can be applied automatically. Insistence upon the latter is likely to produce a standard that works more or less badly in practice—like those now in use.

With these specifications in mind, the following parity plans are offered for consideration. In each instance, the relation between real income per farm and per non-farm worker in the 1922–29 period is accepted as the desirable goal. The various plans differ only in the manner in which this goal is to be sought and in the manner of application to the various commodities or types of farms.

I. Plans based upon prices.

*Plan A*—adjustment of parity prices between the different products according to their 1935–39 relationships, and of the general level on the basis of 1922–29 farm and non-farm income relationships. On this basis, agricultural incomes per gainful worker in the 1935–39 period were 11 percent below non-agricultural incomes per worker. The parity base price would thus be the 1935–39 average price increased by 11 percent; the current parity price would be increased or decreased by the percentage change in prices paid by farmers since the 1935–39 period.

*Plan B*—adjustment of parity prices between the different products according to prices in the 1921–40 period, omitting any definitely abnormal years from the average. The years omitted would vary according to the commodity. Current parity price would be adjusted to changing prices paid by farmers.

*Plan C*—adjustment of parity prices between the different products on the basis of their trend price at the middle of the 1935–39 period. In calculating the trend, all abnormal years would be omitted. In some cases, no one trend line would fit, but during part of the years the trend would be up, and in part, down. The trend price would have to be raised 11 percent to bring it in line with the increase in income per non-agricultural worker from 1922–29 to 1935–39. The current parity price would be calculated by increasing or decreasing this base price according to the change in prices paid by farmers.

*Plan D*—a variant of any of the foregoing plans would be calculation of the current parity price by use of an index of prices of articles or services used in the production of the particular commodity rather than by use of an index of prices paid by all farmers. These index numbers for particular commodities are not available yet, but are much needed.

*February 15 Parity Prices under Several Plans.*

| Commodity | Feb. 15, 1942 actual price | 1940 average price | Feb. 15, 1942 parity price [1] | Feb. 15, 1942 comparable price [2] | Feb. 15, 1942 parity price under proposed plans [3] | | |
|---|---|---|---|---|---|---|---|
| | | | | | A [4] | B [5] | C [6] |
| Corn, ¢ per bu. | 76.6 | 61.8 | 94.4 | 101.9 | 86.2 | 88.7 | 85.7 |
| Cotton, ¢ per lb. | 17.8 | 9.9 | 18.2 | 15.1 | 13.0 | 16.4 | 14.7 |
| Wheat, ¢ per bu. | 104.9 | 95.6 | 129.9 | 121.7 | 106.7 | 112.2 | 106.9 |
| Rice, ¢ per bu. | 161.8 | 81.2 | 119.5 | 105.0 | 95.4 | 112.5 | 106.0 |
| Peanuts, ¢ per lb. | 5.44 | 3.33 | 7.06 | 4.82 | 4.43 | 5.11 | 4.41 |
| Hogs, $ per cwt. | 11.64 | 5.37 | 10.61 | 11.81 | 10.85 | 10.44 | 10.39 |
| Beef cattle, $ per cwt. | 9.93 | 7.52 | 7.66 | 9.30 | 8.55 | 8.33 | 8.92 |
| Butterfat, ¢ per lb. | 36.2 | 28.1 | 39.5 | 41.0 | 37.6 | 43.4 | 40.2 |
| Eggs, ¢ per doz. | 27.5 | 18.0 | 27.8 | 29.7 | 27.3 | 30.3 | 27.2 |
| Wool, ¢ per lb. | 37.1 | 28.4 | 26.9 | 34.1 | 31.3 | 34.3 | 33.1 |

[1] As published by the U. S. Department of Agriculture in *Agricultural Situation* and other current publications; based on 1910–14 prices and changes in prices paid by farmers since 1910–14, except in the case of tobacco.

[2] Based on the ratio of the average price of these commodities in the 1935–39 period to parity prices of the basic commodities (corn, wheat, cotton, rice and tobacco) in these years. The prices of the latter were 79 per cent of their parity prices; the index of prices paid by farmers was 130 in 1935–39 (1910–14 = 100). The base price for calculating comparable prices was the 1935–39 average price divided by 0.79 and by 1.30, or by a single factor of 1.03 (0.79 × 1.30). Comparable prices for February 1942 were 147 percent of the base price, since the index of prices paid by farmers in February 1942 was 147 (1910–14 = 100). Technically speaking, these are not "comparable prices" for the four basic crops. There can be none under the law. They are instead what comparable prices would be if the law permitted, and the same method of computation were used as for the others.

[3] See text for explanation of plans. Uncorrected for seasonal variation.

[4] Incomes per worker in the 1922–29 period were $694 for farm workers and $1453 for non-farm workers; in the 1935–39 period, $520 and $1219 respectively, or 75 and 83 percent respectively of the 1922–29 period; farm incomes in the 1935–39 period would have to be increased 11 percent in order to maintain the relationship with non-farm incomes of the 1922–29 period. The index of prices paid by farmers in the 1935–39 period was 124, in February, 1942, 147, or an increase of 18.2 per cent.

[5] Like plan A except for the substitution for the 1935–39 average prices of the different products, those for 1921–40 period omitting abnormal years.

[6] Trend values for 1937 (= average of 1935–39) for the different products increased 11 percent to allow for advance of non-farm worker income over farm worker income; this base price × increase in prices paid by farmers = parity price B.

Of these several proposals, Plan A meets most of the foregoing specifications, but the first three only reasonably well. It is a sort of compromise plan. It can be objectively and automatically determined. The other plans are better from the standpoint of fitting realities more nearly and hence of working out better in application, but require either more complete data or more judgment. Nevertheless, if the parity program is to prosper in the end, it will need to progress more and more toward the latter types of plans. The weakness of Plan A that shows up in the accompanying table is that the 1935–39 period may easily be abnormal for any product; of Plan B, that its relationships may already be out of date; and of Plan C, that a trend may already have set in in another direction. The weakness of all three is that they accept the farm and non-farm income relationships of the 1922–29 period as too final. But any one of them will be better than any procedure now being followed, even including "comparable prices" as now figured for soybeans and peanuts. In general, they all provide a relatively higher parity price for livestock and livestock products than existing parity standards, and lower parity prices for grains. Hog and egg prices come out about the same place either way—they are more closely tied to grain prices than are the other forms of livestock products. All of them lower cotton price parity, in line with recent developments in the cotton market, but no more than does a "comparable price" determination along recent lines.

II. Plans based upon income.

*Plan E*—using the relative incomes of the 1935–39 period for farm groups classified according to major systems of farming. Incomes in the 1935–39 period would have to be raised 11 percent to allow for the previously mentioned increase in income per non-agricultural worker compared with that for income of agricultural workers. Current parity income would vary according to changes in the prices paid by the farmers for commodities bought. Prices needed to assure the parity income, assuming normal yields, etc., would have to be estimated by the administrators of the program.

*Plan F*—using the incomes of major farm types in the 1922–29 period as normal, and adjusting them according to changes in the non-agricultural income per worker compared to changes in agricultural income per worker. This would involve the previously mentioned 11 percent increase to arrive at 1935–39 conditions. Current parity income would be adjusted to changes in prices paid by farmers.

*Plan G*—application of the trend idea to Plan F.

If the methods based on income and system of farming were applied to some of the systems of farming described in Chapter IX, the parity income that would result would be as in the accompany table.

The advantage of the last three methods of computing parity is that they take account of changes in the particular expenses of any system of farming, changes both in the amount of expense items used and in the prices paid for them, as well as changes in the prices received in the area, whereas Plans A, B, C and D are in terms of average prices received for the product in the whole United States, and of prices paid for expense items in the whole United States, both without any regard to changing amounts of them.

They are therefore much more realistic and in keeping with the full set of pertinent economic changes affecting producers. Hence they are likely to be much more workable in application. Thus, if the wages of farm labor were to rise especially in some area, it would promptly appear in a higher parity income for it; or if the price of purchased feed were to rise in an eastern dairy area. The introduction of power machinery into a farming section would increase both income and expenses, since it would cause an increase in the volume of output.

| Type of farm | Area | Actual net income 1940 | Parity income for 1940 under plans: E[1] | F[2] | G[3] |
|---|---|---|---|---|---|
| Dairy | Wisconsin | $1380 | $1300 | $1230 | $1270 |
| Hog-beef breeding, fattening | Corn Belt | 1580 | 1760 | 2110 | 1980 |
| Wheat, grain, sorghum, livestock | Winter wheat area | 1230 | 1480 | 1190 | 1250 |
| Cotton | Black Waxy Prairie, Texas | 410 | 490 | 780 | 630 |
| Cotton, 2-mule | Mississippi Delta | 310 | 410 | 260 | 310 |
| Flue-cured tobacco | Virginia | 670 | 880 | 580 | 680 |

It must be realized that in any one or more years the prices of particular products or the incomes of particular types of farmers will depart widely from parities as determined by any method however well conceived. They may diverge considerably over several years because of temporary developments. The essential purpose of the parity measure is to show promptly the existence of such divergences and the extent of them.

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[1] Incomes in 1935–39 increased by 11 percent to adjust for increases in non-agricultural income per worker, in comparison with income per agricultural worker; decreased by 1 percent to adjust for differences in prices paid by farmers between 1935–39 and 1940.

[2] Average income in 1922–29 increased by 11 percent, as above, and then decreased by 1 percent, for the same reasons.

[3] Similar to Plan E, except that the trend value for 1937 (mid-point of 1935–39) was taken as a starting point rather than the average of 1935–39.

When such divergences appear, then comes the administrative problem of what to do about them. Most ordinary year-to-year divergence calls for no remedial measures. The next year or two will even out the balance sheet. But if actual prices or incomes differ from properly set up parity standards over a growing span of years, a decision must be made whether the changes in supply and market relationships that have arisen warrant a change in the parity standard for that product, or whether they call for the adoption of remedial measures to restore prices or incomes back toward the parity standard now set up.

In a period such as the present when war demands determine the market for products, it is expected either that prices will be proclaimed for some that are far above any normals that have been determined, or that direct subsidies to growers will be provided.

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*Suppose that we have reached a point where parity prices are being determined by some one of the proposed alternatives to present parity standards for* all the non-basic products: *do we then go on from here using such a plan for these only, still leaving the* basic *products under the old system? Surely not, if we are acting in a rational manner. The next step is to give each of the separate basic products a parity price such as it would get if it were treated as a non-basic product.*

*If the alternative chosen were "comparable prices" under the soybean plan, cotton parity would drop 3 cents a pound, wheat 8 cents a bushel, and rice 14 cents a bushel. These standards clearly represent a better working relation to current economic conditions than present parities. Plans A, B or C would lower corn parity also, and wheat* *still further than under a comparable price standard. Of the plans based on income, E or G would give parities fitting in best with current conditions—F is weighted down with too much of the past.*

*Only when parity measures are reduced to some basis such as these will they serve as a really dependable guide to administration. Any measures less inclusive than these can suffice only as a makeshift. Of course we are always getting along with some makeshifts both in our public and our private affairs, and no doubt we shall need to do so in the matter of parity measures. But we do not live with makeshifts indefinitely—every once in a while we get out of patience with them and throw them out—which we may be in process of doing even now with the whole base-period parity system.*

*Recently, however, a close observer of Congress for two decades remarked to the writer that he had never seen that body stick to anything any more faithfully than it had to parity since 1933, and that he believed that its agricultural leaders would continue to do so. A newspaper cynic who was present said that he believed that Congress would stick to parity just about as long as its leaders from the Corn Belt, the Cotton Kingdom, the Wheat Empire, the Tobacco Provinces, and the Rice Parishes, could manipulate it in such a way as to get them better than market prices, or bonuses in lieu thereof. If Observer No. 1 is right, we can expect to see parity standards beginning to shift strongly in the next year or two toward more workable forms such as those here outlined. This will mean that a body of leaders in and out of Congress set the parity principle above the immediate price of corn, cotton, wheat, tobacco and rice.*

## CHAPTER XIII

# *NECESSARY PRICES*

A suitable parity standard, it now becomes apparent, cannot be so simple as the "fair exchange value" conceived by Mr. George Peek. Simple crude standards can be devised, but when applied they will not work out as intended without imposing more rigorous controls on production and buying and selling than is consistent with reasonable standards of economic freedom. These controls need to be exercised not only over the particular groups of products that are singled out for parity blessings; but over other products that use the same agricultural resources. Hence if parity standards are to be used, two practical choices confront us: (1) adopt and refine them so that they will work; (2) impose controls sweeping and rigorous enough to make even bad standards work.

Confronted by the probable choice of the first of these alternatives, one asks whether the game is worth the effort. Why not instead abandon all effort at "artificial" adjusting of prices of farm products, and let the "forces of supply and demand" do it "automatically"?

Many millions of our people—perhaps a clear majority of them—would recommend such a course of action. Possibly a clear majority of the farm population would so propose even for farm products. More of them are now inclined this way than was true a few years ago. But the trend in attitude should not be given too much weight. Now farm people see a situation in which the unimpeded forces of supply and demand will move farm prices upward. Many of them did not think so well of these same forces even as recently as 1938–40.

The tables are turned now. It is the public interest in wartime that may not find the forces of supply and demand so beneficent in their operations.

There is nothing sacred about supply-and-demand determined prices at any time. The only valid social argument in their favor is that an economy based upon them more or less regulates itself under normal circumstances —or it would if it were ever given a chance to do so. If too little of anything is produced, the price of it rises and more is presumably forthcoming; and contrariwise if too much is produced.

The basic motivating principle of such an economic order is that of scarcity. Scarce goods have a price that is in proportion to their degree of scarcity (relative to demand). The scarcer they are, the higher will be their price, and the greater the subsequent effort to relieve the scarcity.

Few thinking people have ever seriously claimed that the scarcity principle works perfectly for the common good in ordinary peacetime. We are always doing things to make up for its deficiencies—for example, offering special inducements to inventors, subsidizing second- and third-class mail, protecting infant industries, providing free public education and protection of the public health and morals, taxing large incomes more heavily than small ones, making accident insurance compulsory, and now old age and unemployment insurance.

The deficiencies of the scarcity principle as applied to agriculture are easily to be seen—surpluses of some farm products that don't decline, continuing surpluses of farm population and low incomes in large sections of the country, corn and hog cycles, a general need for more food and better diets in the midst of plenty or ability to create plenty.

It may be contended that if the scarcity principle really operated freely and quickly as it should, none of the foregoing could happen. But there's the rub. It doesn't get a chance to operate as it should. Why? Because people are what they are, and behave as they do—and even because of such things as wars and weather, and the very nature of the physical universe.

So we have to take the world and its people as they are; and if we set up our economic order according to the scarcity principle, we do it because it operates better on the whole on this basis than upon some other. Then we go about patching up its shortcomings.

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When war hits a nation, a whole new schedule of scarcities arises. If at such times the scarcity principle operated according to the new needs, and with a new reactiveness born of the urgency of the moment, we could advantageously tear away the meshwork of restrictions and supplements woven around it in peacetime. But the experience of modern nations at war mostly points in the other direction. If more aluminum is needed, the war governments have found it necessary to assume responsibility for the new plants; also if more fats and oils are needed.

Nevertheless, there are parts of a war program in which the scarcity principle will work better than any substitute for it. The burden of the argument is always against those who oppose operations on these lines.

If full supply-and-demand operation is not feasible, perhaps a halfway adaptation of it will work. Thus public guaranteeing of prices isn't simple automatic functioning of the forces of supply and demand and the scarcity principle. It is only one side of it. But it may be the side that is most worth preserving. Guaranteeing the prices of needed farm products at sufficiently high levels may induce all the required expansion. For restrictions on cotton acreage, there may be substituted a strong inducement to shift to other products, in the form of guaranteed prices for peanuts, soybeans, pork, dairy products, eggs, rice, sugar, or sorghum.

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If a government in wartime adopts the procedure of getting its expanded output by means of guaranteed prices, what should be the basis of such prices? Apparently the Farm Bloc would like to say, "Parity."

But is there any real logic in this? Not unless the parity price or income schedule is also the one that will bring forth the products needed in the right proportions. We know from our analysis in the last chapter that no crude system of parity prices will do this trick. In fact, a crude parity schedule is likely to work in exactly the wrong direction. The spread between prevailing and parity prices is likely to be greatest for those products of which we have been turning out too much and whose output the war program requires to be cut. Cotton and wheat are the prime examples of this. Secretary Wickard's effort to cut feed prices below parity to encourage meat and milk and egg production illustrates another phase of the same situation.

However, a parity schedule based upon the projection of recent trends is likely to fit an ordinary peacetime situation very well. It would not be likely to run the wrong way even in wartime. But it will fit the war needs closely only by accident. War needs shift suddenly—like our present need for producing our own oils and fats and hemp.

After all, the real criterion of prices for a system of guaranteed, or announced, or "proclaimed" prices is the price that is necessary to induce the desired output. Economists have for some time been referring to such a price as *necessary price.* It is the price that meets the necessary out-of-pocket costs and pays the producer at least a little bit better for the use of land and equipment and his own labor and management than the nearest competing use will do it. In ordinary peacetime, a properly conceived system of comparable and parity prices and a system of necessary prices will not differ greatly. In a short run of abnormal years, they will commonly diverge widely.

Several methods have been employed for determining necessary prices directly. One is to make a statistical analysis of the past relation between price-cost ratios and production in the immediately succeeding years. The results so far have failed to fit actual situations well, the reason being that year-to-year responses to last year's prices are not the same as the responses to a *sustained* new level of prices. Guaranteed prices, in particular, will induce a larger response than prices that just happen. They should, for the government takes all the risk. Frequently when a farmer decides to produce more because prices have been higher recently, all his fellow producers decide to do the same thing. All this is out when the government supports a price.

A more realistic form of analysis undertakes by farm budget analysis to determine what shifts a representative sample of farmers can advantageously make with the price of the product in question, and those of competing products, set at various levels. This method is in fact being used at this very time by the Department of Agriculture to determine probable responses of farmers in selected counties to the production goal program. It has been used in recent years to determine how much milk will be produced on dairy farms, at various levels of sustained prices, in selected counties in the Midwest and New England now competing for the eastern fresh cream market.[1]

At its best, such analysis can never provide more than an approximate answer to the question of what is necessary price. Besides, new conditions are likely to arise that will call for some revision. Hence any such price set must be looked upon as a trial—the real method is likely to be "cut and try," especially in wartime.

The time factor becomes important in setting necessary prices. How soon is the expanded output wanted? In the language of the economists, some cost curves are very steep in the short run—that is, the prices will need to be raised greatly if a large new output is wanted soon. Thus only at rapidly mounting costs can dairy output this year be expanded beyond the limit of what present dairy herds can produce at reasonable rates of feeding. After a certain point is reached, the output of dairy herds per unit of feed declines; or poorer cows must be kept in milk. Feed costs per unit of pork rise if an enlarged output is sought by feeding to heavy weights a limited number of hogs. Given more time, more heifers and pigs can be bred and reared. No doubt it will cost more to get ten million acres of oil peanuts grown in two years than in five. The war administrators need to study these cost curves and decide upon how high to go in any one year. A general tendency to set prices high up on a steep cost curve so as to get large expansion in a year, will have a general inflationary effect on prices.

Good public policy, even within a run of a year or two, may call for getting more expansion from some territory than from others. Thus it may be more important to increase peanut production than soybean production, or peanut acreage in a cotton than in a tobacco area. There may be warrant for paying more for oil to be derived from peanuts than that from soybeans; or even for peanut oil from one area than from another. This involves the principle of differential pricing, of which considerable use is being made by the War Production Board. If contracts can be let to different contractors at differing prices, why not have proclamation prices for farm products varying by territories?

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[1] See USDA Technical Bulletins 709 and 750 for reports of such analysis for a section of Vermont and two counties in Wisconsin.

Or if in peacetime it is good social policy to "protect," by added burdens on the consumers, a new line of production to get it started in a country, why not also to pay a special price, or a subsidy, to assist the farmers in an area to make a much-needed shift in their production?

The price required to do this will be a *necessary* price.

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By this time, it should be clear that *necessary* price may be a very good alternative to—even substitute for—parity price as a standard for a public price policy for farm products—at least in wartime.

Congress must in fact have had something of this kind in mind when in the Steagall Amendment it made the need for expansion a condition for the supporting of the prices of non-basic products at a level not less than 85 percent of parity. The Department of Agriculture and the Office of Price Administration had both accepted the necessary price principle before Congress took action; and as has already been explained, prices of a dozen products are already being underwritten on this basis.

Within a year, necessary price may indeed have largely supplanted parity price as a standard of public policy for farm products. Farmer statesmen may therefore advisedly cogitate upon such a possible course of evolution.

## CHAPTER XIV

# *COST OF PRODUCTION*

No discussion of alternatives to parity would be complete without some consideration of unit cost of production. The attempt in 1933, already noted, to make unit cost of production [1] the basis for prices of farm products was not without precedent. Wheat prices were supposed to have been fixed on this basis during the World War. About the same time, milk prices were being set according to a cost formula in the New York milkshed and several others; and there was much talk of setting them this way in the Chicago market and many more. A number of the new state "farm bureaus" set up agencies to compute the cost of production of farm products—Iowa and South Dakota, for example. Over in Great Britain, Parliament enacted a law fixing prices of farm products at unit cost of production and created a whole network of district agencies to collect and compile the cost data for it. The various price-fixing bills introduced into our own Congress in the early 20's all named unit cost as the level of prices to be established.

Somehow or other the United States managed to escape the price-fixing threat in the 20's. The party in the seat of power was entered upon a quest for "return to normalcy." Great Britain unfortunately had figured her first set of costs and farm prices in 1920 before the post-war collapse. She hastened to repeal the legislation, to prevent the complete emptying of her treasury. The domestic milk markets using unit cost as a price basis soon came to grief. Even though the cost used was only the average, theoretically leaving half the producers in the red, the prices set presently brought forth a supply of milk that swamped the markets. The farm bureaus shortly turned to other interests.

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[1] Cost per bushel, pound, or other unit of the product.

Still the cost of production idea stayed alive. The principal refuge of it in the government in the years from 1923 and 1933 was in the Tariff Commission. Here was a group that was required by law to determine the difference in unit costs of production between the United States and the principal competing countries and report this to the President as a basis for levying tariff rates. Outside of government, the cost-of-production notion lived on mostly in the thinking of the American Society of Equity, Farmers' Union and other often called "left-wing" farm organizations. In 1925 one of this group did some bold figuring and came forth with a set of unit costs that ran in terms of $2.10 per bushel for wheat and $1.40 for corn. The farm operator was allowed an $1800 salary as one of the cost items in these calculations. These organizations kept the cost-price idea alive up to the time that John Simpson sold it to Senator Norris in 1933—if Senator Norris didn't already have one of his own. For six years of this time, a Senator Smith Brookhart from Iowa kept the subject in ebullition in the Senate.

But let no one think that only here and there in odd places were to be found notions of this general sort. Probably most farm people who thought about it at all believed then, and still believe, that farm prices must at least cover farmers' costs. They differ from the left-wingers only in that they would not "fix" prices at all, not on any basis. They would let the market make the prices. Many a city business man has cleared his throat at some merchantfarmer or banker-farmer gathering and pontifically declared that, "Of course the farmer is entitled to cost of production." The writer has read editorials in newspapers even of the city of Boston in which the same truth has been sententiously affirmed.

Why should any man need to make such an affirmation? Is it not sufficiently obvious that no farmer, any more than a manufacturer, can stay in business and sell his product for less than it costs him? This is just plain common sense.

And that is probably why the early economists—Adam Smith, David Ricardo, and John Stuart Mill—writing in the years from 1776 to 1870, stated that without any question the prices of goods must be determined by their costs of production. The science of economics that they were trying to build up was nothing more than the organized common sense of their times. There were no "statistics" in those days—the only tests of economic truth were appeals to "common observation."

Was it not rudely disturbing, then, when about 1850 another group of economic thinkers—in England, but especially in Austria—came along and observed, also in a very common-sense sort of fashion, that some articles that had cost much to produce when they were produced, no longer had any price—because nobody *wanted* them any more; and contrariwise, that some things that had not been produced at all, that nature had provided free, had high prices because they satisfied important wants. They therefore concluded that the want for goods, or demand, was the real reason for their having a value and price. As for costs of production, nobody knowingly incurred them unless the resulting product satisfied a demand; and if costs ever exceeded price, somebody had made a mistake, but it didn't make the price any different. Furthermore, unit costs are merely the sum of the values of the labor, land, and materials used in production; and these get their values from the demand for the product to which they contribute. Thus if a city grows and demands more milk, then the price of dairy cows roundabout rises, and likewise the rent or price of good pasture land near by, and even the price of the labor of those who feed and milk the cows.

It wasn't until about 1890 that a few economists, notably Alfred Marshall in England, began to realize that these two sets of apparently opposing common-sense ideas do not really conflict at all, but can be fitted together into a pattern of thinking that makes good sense all around. Most goods, in fact, do need to be produced, and costs are involved in their production. On the other hand, rarely are goods intentionally produced for which there is no demand. Usually, then, both costs and demand are involved, and they become balanced against each other in a sort of *equilibrium price* for the product. If something increases the demand for a product, then more of the cost factors (land, labor, equipment, materials) will be used to produce it, which will tend to raise the cost rates for these—at least in the short run—and this will require a higher price for the product, which in turn will cause less to be bought. The same result will follow if something takes away part of the supply of any or all of the cost factors. On the other hand, an increase in the supply of these reduces their cost-rates and makes possible the meeting of a larger demand for the product at a lower price; and a demand for the product falling of its own account will bring about a decline in cost rates, and fewer cost goods will tend to be employed. Thus, in practice, neither cost nor demand is always the *prior* cause; sometimes the chain of cause and effect begins on the cost end and sometimes on the other. But in either case the cost rates for the factors and the prices of the product tend to get in line with each other. Thus "normal costs" and "normal prices" tend to be equal and in equilibrium.

The cost rates or prices of the cost factors are indeed reflected back from the prices of the product, which in turn is a reflection from demand. But the available supply of the cost factors, and their productivity, determine what part of the demand will be met, and hence the price of the product itself.

Of course basic to this reasoning is the simple fact observed everywhere in life that buyers stand ready to take more of a given product at a low price than at a high price—sometimes a great deal more, sometimes only a little, depending upon the nature of the product—whether it is automobiles and fur coats on the one hand, or bread and potatoes on the other; upon whether it is beer or table salt. Conversely more of the cost factors will be offered for use at a high price than at a low price. These two statements make up what economists ordinarily mean by the "law of supply and demand."

The correspondence of "normal costs" and "normal prices" above noted exists, however, mostly in hypothesis. Something is always happening to the demand for a product, to the factors entering into its production, or to the demand or supply of some competing product, which upsets the equilibrium and brings about a new set of cost and price relationships. Still more important, the new equilibrium is not attained at once. For example, farmers cannot shift at once to dairy farming when dairy product prices rise because of a new demand; nor even to soybeans and peanuts. Moreover, they seldom shift as soon as they could —they are too much attached to old kinds of production, or are slow about learning the new, or haven't the capital or credit to make the change. Only when they are ready and able to shift will they go out and bid more for land and labor to be used in this way. Hence costs and prices are seldom exactly in line with each other, but are always headed toward some equilibrium, which, however, usually changes before they get there.

The effect of this is particularly serious for buildings and other "fixed" or "partly fixed" capital goods. A tobacco barn in western Kentucky used for curing dark tobacco is of no use for Burley tobacco when that becomes more profitable, as it has there in recent years. It is of little use for anything else. Its value or price is therefore reflected back from the waning price of dark tobacco. What it cost to build it in the first place has no bearing on the present value of the farm. Once it is built, that is ancient history. The only cost price that is of any significance as an item in cost of production now is what farmers in the area are willing to pay for its use now. On the other hand, if Burley tobacco is proving very profitable in the area, then a Burley tobacco barn may rent for more than an annual share of what it cost to build it; or than an annual share of what a new one could be built for now. (You see, a farmer might prefer to take a chance on paying a good rent for a few years to gambling on a long-term investment in a new building.)

Farm machinery is subject to the same influences, but in a lesser degree. Each new better and cheaper tractor has reduced the value of the old ones on hand. If the price of a product has risen, more expensive methods of production, including more costly equipment, have been called into use.

The same principle applies even to the prices of single-year products. Once the crop has been produced, the expenses that have been incurred have little effect on the price. The only way in which they do is that producers often feel so strongly that they should recover their costs that they hold on for better prices at the start, making prices unduly high then, but unduly low afterwards.

Of course, the cost-price relations of this year do have a bearing on next year's prices. They influence the amount of new production planned. But often farmers keep up their output of a product for several years after its price has declined. Sometimes they are wise in doing so—the decline in price may be merely temporary. But who can forecast surely in such matters?

The manufacturer is confronted with parallel situations, but he frequently does not react in the same way. He is more aware than the farmer that past costs do not decide for him the price at which he may have to sell his product, and acts accordingly. So far as he can, he contracts his sales of product and purchases of raw materials in advance, so that he may know both selling prices and cost-rates before he starts producing. Or he may hedge his purchases and sales. He frankly recognizes periods of depression, and reduces his output if possible to what the market will take at a loss-saving price. In a very slack time, he may forget about getting any return on his fixed capital goods, in effect considering them as having no cost for the time being.

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Much trouble arises in all discussions of cost of production because the term is used in several different senses, often unwittingly in the same speech. The most obvious sense is what is often called "historical cost"—that is, the sum of the cost items actually spent on some production already completed. In computing such costs, buildings and machinery are charged on the basis of depreciation from their actual original purchase price, labor at what was actually paid it, and so forth. It will be apparent that costs thus computed will commonly be out of line with prices, on the high side in a period of improving technology or declining price level. The professional teachers of farm management in this country mostly do their figuring in terms of historical costs. So did the United States Tariff Commission when it was estimating cost differences between countries. The United States Supreme Court until recently insisted upon historical costs in passing on the validity of public utility rates fixed by commissions.

A second meaning of cost of production is cost equal to what prices "should" be—for example, equal to prices that will support the kind of living producers want, or that somebody thinks they should have. This is what the senators mean who say: "All these years the farmers have been producing for less than the cost of production." What they are trying to say is entirely valid—it is the way of saying it that is confusing. A plain-speaking economist would have said that farmers have been selling their labor and other services too cheaply all these years, or perhaps that their "reservation prices"—the prices for less than which they will not produce—have been too low.

Many persons have tried to figure out costs of production according to this meaning—frequently without knowing it. The group in Iowa which figured $1.40 as the cost of producing corn was really doing this. It was saying, in effect, that a farmer needed $1800 a year as income to live as well as his city brethren. Dr. Ernst Laur as head of the Swiss Farmers' Union did a similar thing in figuring the cost of producing wheat and other farm products in Switzerland —the only difference was that he was more sensible and moderate about it, because he knew that the prices he figured were actually going to be used in setting prices. Of course, there isn't any scientific way of figuring this kind of a unit cost of production. What you really do is decide what incomes and prices you want for farmers and figure back from these.

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The third and most useful meaning of cost of production is the amount that will need to be spent now, or in this production year which is just starting, to get the needed amount of it produced. This is commonly called "necessary cost." It is of course the same thing as the *necessary price* discussed in the last chapter. Necessary price must cover necessary costs. When one goes about getting this figure from a cost approach, one undertakes to say what amount of each of the cost factors is going to be used this year, and what must be paid for them to take them away from their nearest competing uses. Present use-values take the place of historical investment costs. Necessary cost figured by this method is likely to be fairly closely in line with prices over a period of several years. Any one year, the accidents of weather, or wars, or business recessions and the like, may make actual prices either higher or lower than necessary costs estimated currently just in advance. The "prudent investment" theory which the Supreme Court now tends to accept does not always give the same results as necessary cost, but points exactly in that direction.

A distinction must be made between necessary costs in the short run and in the long run. As has been stated, manufacturers may largely forego returns on fixed plant for a few years that they cannot forego indefinitely. Very often, however, the fixed plant has no alternative future use, so that any returns upon it at all are a gain to the enterprise. Or perhaps only part of the existing plants will be needed in the future, so that only part of a replacement reserve must be allowed for necessary cost.

Reckoning necessary costs from a social standpoint may thus involve some broad questions. Does the nation need to have cotton farming maintained in the hill lands of the Old South, or should production be allowed to shift to the new rich lands of the delta bottoms of the Mississippi? How much of present dairying does the nation need to maintain in New England? Economy in production is of course the main factor to be considered, but not the only one—where are the people of the Piedmont to go if cotton farming goes?

Earlier we slipped very easily over a phrase that calls for some attention. We said, "to get the needed amount produced." What is the needed amount? Under our present social system, the amount bought and consumed depends upon the price. And so likewise is the amount produced. So here we have our old friend the *equilibrium* with us again. Necessary cost is the amount required to induce producers to turn out what consumers will buy at that price.

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Now all three of these meanings are possible and even valid. The point is that they should be called by different names to keep them from being confused—historical costs, perhaps "good-price costs" for the second, and necessary costs for the third. (The writer has never been able to settle his mind on an acceptable name for the second.) [1]

It should also be recognized that these three costs will seldom be the same, necessary costs almost always being the lowest. Necessary costs are the only ones that will keep within easy reach of market prices.

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[1] A technical term might be "normative costs."

Of course, necessary costs are not the ones that the farm agitators are seeking. They know that farmers stand ready to produce ample supplies of farm products at prices which they consider too low—in recent years all the wheat that this country will use or can export at 75 cents a bushel or less, all the cotton at 10 cents a pound or less, all the pork at $7 per hundredweight or less. They have known full well what would happen to outputs of these with no production quotas.

Back in the 20's, there was a farm leader who constantly demanded that farmers be guaranteed "fair" prices for their products the same as was being done for railroads, street car systems, lighting systems and the like. He was taken considerably aback when it was explained to him that the commissions and courts based their rates of allowable return on investments in public utilities upon what was found "necessary to attract the required capital"—that is, on the necessary-cost principle.

If there is to be public price fixing on a cost basis, of course the administrators want it to be according to necessary costs. If they could figure necessary cost at exactly the right point, just the right acreage would be planted over a short run of years to keep production and consumption in balance. The surpluses of good weather years would be put in storage and would exactly offset the deficits of other years. Needless to state, such accurate figuring is impossible, for necessary costs may change in a few years with the changing technologies of production and changing demands for competing products. Nevertheless, the statisticians could try their hands at it, and make adjustments for mistakes as they went along.

Fixing prices at the higher level of "good-price" costs soon gets administrators into much more difficulty. With no production controls in effect, output increases, storage stocks pile up, and the government presently begins to look around for somewhere to dump its load. This is what happened with the Federal Farm Board program in 1929–32. With production controls in the set-up, at least an attempt can be made to hold output down in spite of the higher prices. It may succeed or may not, depending upon the product and the methods used.

The fundamental difficulty is with the farmers' "reservation prices" for their labor and management, and even for their land. They are too much habituated in the selling of these at too low a price. Once there was a state farm bureau president who seldom made a speech in which he did not scold the farm cost accountants for not figuring in the value of the soil fertility being used up by the crops. He was wrong in thinking that they did not include it. The rent of land each year includes pay for the plant food taken away. He probably would have been right if he had said that they did not include enough pay for it. So long as these reservation prices are this low, farmers, if free to do so, will expand their output if a new higher level of prices is set.

It is highly probable, however, that prices of farm products can be pushed up above necessary cost levels a little at a time, and that reservation prices will rise soon enough afterwards so that the surpluses will not be a serious problem.

A full-fledged program of fixing prices according to unit costs of production would always be faced with the danger of pyramiding prices and costs. Once prices were set appreciably above necessary costs, land rents, farm wages and capital goods cost rates would rise in response, and furnish a statistical basis for still higher costs and prices as early as five years later. Output control would need to become more and more rigorous to prevent a breakdown of the whole program.

The Tariff Commission's calculations of unit costs of production for farm products were generally higher than necessary costs. For example, they tended to obtain cost figures such as 50 cents a pound for butterfat when prices had been averaging 40 cents or less with output still expanding. They were a peculiar mixture of historical costs and good-price costs. Proprietor and family labor was commonly charged well above the reservation prices. No particular harm ordinarily resulted from these high estimates. The object of tariff legislation in those years was to exclude all imports if possible, and the flexible provision in the tariff act was intended mainly as a front for such an undertaking. To the extent, however, that the resulting higher tariff duties permitted domestic prices to rise, the pyramiding process always set in, furnishing a basis for higher tariff duties later.

The costs figured by professional farm cost accountants in our schools have also tended to mix good-price cost ideas with historical cost ideas, though not always to the extent of the Tariff Commission studies. Prices fixed on the basis of such findings would usually have wrecked the market if put into effect by price fixing without vigorous and effective production control.

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A phase of cost measuring that has especially troubled the farm cost accountants is the wide variation in costs between individual producers. There is no merit in an average of all the individual costs. Half of the output would be produced at a loss if prices were fixed at an average of all true costs. On the other hand, if prices were set to cover the costs of the poorest farmer, many of the others would be making so much money that they would be strongly induced to expand output.

During the World War, the War Industries Board introduced the practice of setting prices high enough to cover "the bulk of the production." This left a considerable number of small or weak high-cost producers out in the cold. There was no special merit in this method either—except as it may have been a practical expedient to follow in wartime in order to get output increased. Nevertheless, some of the farm cost studies published in the early 20's followed this lead.

The truth of the matter is that even an average of the kind of individual costs that the professional farm accountants have been figuring has commonly been so high a figure that it either did break the market if applied, as sometimes in milk markets, or would have had it been applied.

*Agricultural Statistics* now published yearly by the USDA includes a set of tables on unit and acre costs of production for corn, wheat, oats and cotton. According to this figure the 11-year (1928–38) average costs of producing wheat were $1.05 per bushel; of corn, $.73 per bushel; of oats, $.48 per bushel; and of cotton, $.115 per pound. The comparable price figures were $.77, $.63, $.33 and $.109 respectively. Cotton and corn prices came nearest to equaling calculated costs.[1] The occurrence of the depression of the 30's in the midst of this period made the margins only a little wider than they would otherwise have been.

In the accompanying table these same comparisons of cost figures and prices are presented in detail by groups of years. The average farm prices are for the same groups of states as the average cost figures:

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[1] The figures here reported for costs are not referred to as *actual* costs not because they are especially bad; but because rarely if ever are reported farm cost figures entitled to be considered as the actual costs. As a matter of fact, the Department of Agriculture cost figures show an unusual degree of consistency.

| | 1928–30 | | 1932–33 | | 1935–38 | | 1928–38 | |
|---|---|---|---|---|---|---|---|---|
| | Price | Costs | Price | Costs | Price | Costs | Price | Costs |
| Wheat—per bushel | $.84 | $1.19 | $.56 | $.85 | $.88 | $1.10 | $.77 | $1.05 |
| Corn—per bushel | .73 | .78 | .42 | .53 | .68 | .76 | .63 | .73 |
| Oats—per bushel | .38 | .51 | .25 | .42 | .31 | .46 | .33 | .48 |
| Cotton—per pound | .147 | .163 | .081 | .090 | .101 | .100 | .109 | .115 |

In none of these periods for any of these farm products were the calculated figures on costs lower than the average farm price. The nearest to it was cotton in 1935–38. The gap was widest in 1932–33, narrowest for wheat and cotton in 1935–38, and for corn in 1928–30. Costs and prices of corn and cotton come nearest to matching—both are main crops in the territory where produced. Oats tends to be a supplementary product filling in an otherwise vacant place in the crop rotation. Such products have relatively high costs under conventional systems of cost accounting.

These cost data of the Department of Agriculture need to be examined more closely in terms of selected areas within which conditions are more nearly alike, as in the table accompanying, in which the areas or states are arranged in order of prices in 1932–33.

The exceptionally high costs reported for some areas in 1935–38—like $2.63 for corn in Kansas and the Dakotas, $1.71 for wheat in the Northern Plains, and $.152 for cotton in Oklahoma—were due to droughts and low yields.

The range in prices is wide between the states, depending in part upon distances from market and consuming centers, and in part upon whether the area is on a deficit or surplus basis. As one would expect from our statement of principles above, the calculated costs rank in about the same order as the prices—when they do not, some accident such as weather is likely to be responsible for it.

In general, the nearer a crop is to being the main stand-by of an area, the nearer together are the costs figure and the price. Conversely, the more of a sideline a crop is in an area, the greater tends to be the disparity between its reported costs and price. In three areas only were any costs lower than prices—corn in Illinois and Iowa, cotton in North Carolina in 1932–33, and cotton in Alabama and Mississippi in 1935–38.

| | 1932–33 | | 1935–38 | |
|---|---|---|---|---|
| | Price | Costs | Price | Costs |
| *Wheat* | | | | |
| Western states | $.51 | $ .74 | $ .73 | $ .83 |
| Northern Plains | .52 | .95 | .89 | 1.71 |
| Corn Belt | .64 | .78 | .87 | 1.01 |
| Northeast | .73 | 1.08 | .90 | 1.09 |
| Southeast | .83 | 1.22 | 1.00 | 1.41 |
| *Corn* | | | | |
| Missouri and Nebraska | .35 | .45 | .70 | 1.41 |
| Kansas and Dakotas | .36 | .65 | .67 | 2.63 |
| Illinois and Iowa | .39 | .38 | .66 | .56 |
| Western states | .42 | .78 | .75 | .98 |
| Southeastern states | .63 | .91 | .75 | 1.14 |
| *Oats* | | | | |
| Illinois and Iowa | .22 | .36 | .28 | .39 |
| Ohio and Indiana | .25 | .43 | .30 | .45 |
| Northeastern states | .37 | .60 | .44 | .68 |
| *Cotton* | | | | |
| Oklahoma | .076 | .078 | .092 | .152 |
| Texas | .078 | .082 | .099 | .115 |
| Mississippi | .084 | .109 | .104 | .085 |
| Alabama | .085 | .102 | .100 | .093 |
| North Carolina | .088 | .084 | .104 | .110 |

Many pages could be used to explain why the cost figures usually calculated are too high for use in price administration, but it would not further any useful purposes to do this. Most of the reasons can be summed up in the statement that the cost computers assign values to the cost factors that are well above the prices at which the producers are willing to supply the needed land, labor, equipment and supplies. They do this least for the main enterprises on the farm, and most for those that use land, labor and feed left over from main enterprises. Livestock production, especially dairy production, is likely to answer this latter description on many farms.

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Although unit costs of production fail to provide a workable basis for a program of publicly administered prices, one must not make the mistake of thinking that changing costs can in large measure be disregarded. In a majority of situations, temporary rises and declines in costs due to special causes such as droughts and poor pastures are best let pass so far as any price adjustments are concerned. But any trends in costs, or step-ups or step-downs to new levels likely to be maintained, need to be recognized promptly in one way or another.

*The most practicable procedure thus far advanced for keeping watch of changing costs is outlined at the end of the Chapter XI on the Geography of Parity. The index numbers of quantities of expense items used, combined with the index numbers of the prices paid for them, make almost an ideal measure for the purpose in hand.* The problem of choice of base period is still involved, but not in its usual formidable proportions.

## CHAPTER XV

# *SCARCITY vs. ABUNDANCE*

Several sweeping statements have been made in the last few chapters to the general effect that attempts to establish parity prices out-of-line upward from prevailing conditions of supply and demand, are pretty certain to lead to complications and eventual confusion of agricultural programs. A workable parity standard, it has been maintained, is one that defines prices very near to *necessary prices* and *necessary cost* levels. Such statements should not be made unless they can be supported. They involve fundamental relationships between agricultural output, agricultural prices and agricultural income that have not yet been explored in this book. Will agriculture thrive best with large outputs or small ones? This is the old question of scarcity *vs.* abundance over which so much emotion and so little light has been spent in the past nine years. One can be a parity philosopher and vote for either scarcity or abundance; but he cannot escape taking a position on the issue. This chapter undertakes to analyze the issue cold-bloodedly, mostly in terms of statistics.

The philosophers of the parity movement should not allow themselves to think of their ideas about scarcity and abundance as original. Rural folks have had ideas like theirs in bad times since the beginnings of commerce. The classical Greeks had words for them, and before that the Egyptians.

The nearest ancestry of the current parity ideas in recent times is found in the doctrines of the American Society of Equity, founded in 1903 when agriculture was staggering to its knees after being almost completely knocked out in the 1890's. The watchword of the Equity movement, printed on the title page of every issue of its mouthpiece, *Up-to-Date Farming*, was "The farmers are under no obligation to feed the rest of the world at an unfairly low price."

The Equity bible read: Modern society is composed of three great groups: Labor, Capital and Agriculture. The first two are organized and can get what they want. Agriculture is not organized, and gets the squeeze at every turn. The farmers too must organize. They must become as strong as the other two. They must be "The Third Power." "Farmers to the Front."

The main difference between the ideas of the early Equity members and those of the parity leaders of today is that they proposed to win their battles in the market place, whereas today's leaders carry their battles into the lobbies of Congress and into the offices of the bureaucrats. The Equity farmers wanted to do it the *cooperative* way in place of the government way.

The choice between these two ways of relieving agriculture came to a head later in the 1920's when one main branch of the cooperative movement, sparked by Mr. Aaron Sapiro, wanted to rely on monopoly controls wielded by the farmers' own selling agencies, and another branch wanted to tie in with government in various forms of what was then called "compulsory cooperation," the McNary-Haugen plan being one of these. The National Cooperative Council had a big fight over this issue. The Sapiro-istic contingent won the first round by defeating the Hoover-sponsored Capper-Williams bill in 1925. All the rounds since have been won by the other crowd. A bribe of a $500,000,000 revolving fund forced the issue when the Agricultural Marketing Act was passed in 1929. The cooperative factions have since united behind a general front of opposition to too much emphasis upon federally administered production control. They don't object to cooperatively directed production control, especially in milk markets.

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The illustration which President J. A. Everett of the Equity Society most frequently used for his text had been suggested for him by Secretary of Agriculture James Wilson, who pointed out in 1901 that a small crop had just sold for more money than the larger one of the year before. The 1902 crop sold well too, but Everett thought that this was because of the scarcity of food and feeds carried over from 1901.[1]

Still it wasn't Everett's idea to go out among farmers and ask them to restrain production. The members of the Society of Equity agreed in their membership applications "to follow the reasonable advice of the society regarding crops, prices, etc." If farmers just had their share of bargaining power, they somehow would not have to take the low prices offered them by the grain companies and meat packers. Withholding from the market? Yes, but temporarily only. The farmers, he seemed to expect, would back up their bargaining power by producing presently only what they could sell at *fair* prices.

The following passage of Everett's makes delightful reading today:

> "If the farmers are told to ask a fair price for cotton, wool, wheat, corn, oats, potatoes, eggs, milk, butter, tobacco, vegetables, fruit, hogs, cattle, etc., and each farmer knows that the word goes out to the millions of other farmers all over the broad land, do you

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[1] *The Third Power*, p. 68.

suppose they would do the contrary thing? Or if we will admit that all will not obey,—some because they can not stop marketing,—there will still be enough in this great body to control the marketing and make the price. All that will be necessary is to stop marketing, wherever the buyers will not pay your price."

By 1933, however, the agricultural leaders in this country had mostly lost their innocence. They had seen farmers keep on producing more cotton, wheat and corn in spite of falling prices. It was even being argued that low prices forced the farmers to expand their production. Therefore they mostly turned to out-and-out restriction of output. With the help of government, they even plowed under cotton already planted and slaughtered little pigs. To use the words of one of our living economic historians: "The souls of millions of litters of pigs rose in plaintive cry, and the souls of more millions merely stifled a sigh." [1]

Faced by the prospect of short supplies of food and high prices, with a vast population out of work and unable to buy food at almost any price, many good citizens became alarmed. They accused the farmers of having adopted a program of "scarcity economics." A book with a title *Farming for Famine* made its flaming appearance. Thousands of teachers of the elementary principles of economics told their boys and girls that the new farm program was "unsound," that wealth could never be increased by producing less.

Nevertheless, aided by government, the farmers kept on with their "production adjustment" program—kept on with it in spite of a ruling of the United States Supreme Court against it. Right or wrong they may have been in 1933, or even in 1939—what about *now* with the nation at war?

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[1] N. S. B. Gras, *A History of Agriculture*, second edition, last chapter.

First of all, we had better answer the question as to whether the producers of any product, and agricultural producers in general, can improve their condition by producing less.

In his *Agricultural Reform in the United States*, published in 1929, the writer put together such statistical evidence as was then available and constructed two charts showing how the total income or revenue from each of several crops and livestock products changes with large and small outputs. The total revenue curves for corn and oats seemed to be highest with middle-sized crops; those for cotton and potatoes highest with short crops, and those for wheat, hogs, beef cattle and sheep highest with relatively large outputs.

It was interesting that while the revenue curves for beef, pork and sheep each separately increased with output, that for all three combined ran the other way. This meant that when only one of these was short, consumers could always use more of the other two, but that when all three were short, they paid enough more for meat to make up and more for the reduction in volume of sales.

Better data can be drawn on now and eleven more years of recorded experience, and in some respects different experience. Also we know better how to make such analyses. To what economic morals do the data point now?

The first is that there is no one answer: *it depends*—(1) upon how many farm products are high and low together, whether one, several or all (this we had partly discovered before); (2) upon how long a run of years we are thinking about, whether just this year and next year, or the next 5, 10, or 20 years; and (3) upon whether general business is good at the time or bad.[1]

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[1] The analysis in the rest of this chapter, and most of the first writing, was done by Marion Clawson.

Perhaps another moral is that no answer can be made with certainty. Too many things are changing from year to year at the same time to make it possible to separate out the effects of any one. If the reader will follow through the major steps of the analysis for one crop, say cotton, he will see why this is true:

*Step* 1. The largest factor in changes in the value of the cotton crop is changes in price level. The 1928 crop was worth $1,302,000,000 at the farm; the 1931 crop, $485,000,000—the general price level index had fallen from 141 to 107. Back in 1929, we tried to take out the effects of price level changes by expressing all values in dollars of some one

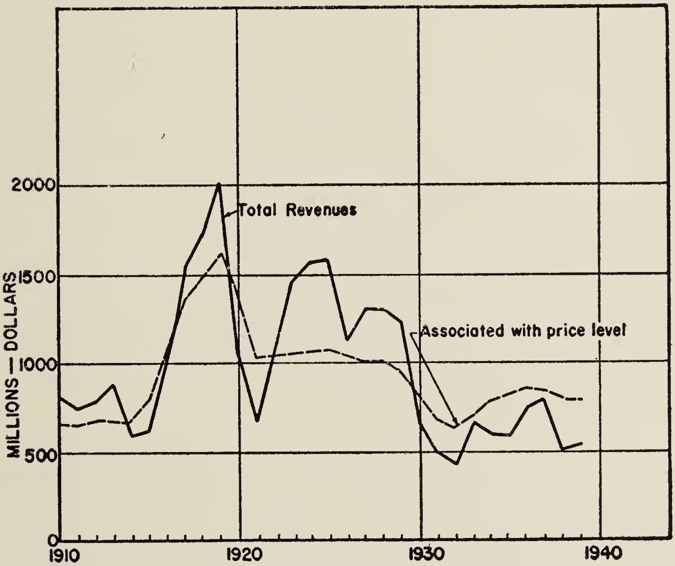

Chart I. *Changes in Total Revenue from the United States Cotton Crop, and Changes in the Same Associated with Changes in the Price Level, 1910–39.*

year, like 1913 or 1926. We now know that this is wrong, because farm prices move up and down over a wider percentage range than wholesale prices. Prices of cotton in 1931 were 6 cents a pound, compared with 18 cents in 1928. Measuring the relationship of price level changes to cotton crop values directly gave the results shown in Chart I. The broken line indicates how close price level movements come to explaining everything. The largest leftovers were in the period of the 20's when the boll weevil damage was at its worst.

*Step* 2. The value of the cotton crop is also affected by the volume of business and accompanying buying power of the consuming public. This may be measured by an index of business activity, or by consumer income. In the latter case, the money amounts must be converted to real purchasing-power terms by dividing them by index numbers of the cost of living. The two measures of volume of business give almost identical results. Real non-farm consumer income was finally used. Removing the effect of changes in this, plus those due to price level changes, gives the results shown in Chart II. The two lines are still closer together.[1]

*Step* 3. The remaining variations in values of the cotton crop are now considered as associated with the size of the annual cotton crop plus carryover. Chart III reports the results. The revenue curve slopes to the right and downward, just as was reported in *Agricultural Reform.* This means that, price level and real consumer income being the same, the smaller crops sell for the more money. Taken at its face value, the total income curve fitted to the field of points indicates that an annual supply of 13 million bales is worth about $1,300,000,000,[1] and an annual supply of 26 million bales is worth $900,000,000. Each additional million bales thus decreases the crop value by $30,000,000. On this basis, each additional pound of cotton is worth minus six cents.

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[1] The statistician is confronted with the problem of separating two factors that are themselves interrelated. Price levels and real consumer income frequently change together in the same direction. But there are enough cases where they do not, or change to differing extents, so that at least a partial separation of the two relationships can be made. A good example of differing changes was during the war years of the last war and just before, when the cost of living was rising faster than workers' earnings.

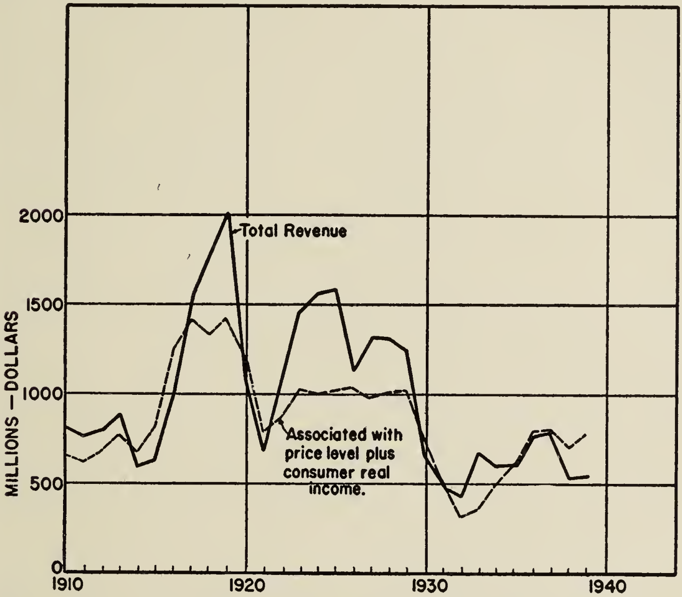

Chart II. *Like Chart I, Except that Changes in Cotton Revenues Associated with Changes in Real Consumer Income Are Combined with Those Associated with Changes in Price Level.*

Closer study of the data indicates, however, that more of the changes in total revenue are associated with changes in carryover than with changes in production. Although the largest crop was about 2½ times as large as the smallest crop in the 1910–39 period, the largest carryover was more than nine times the smallest carryover.

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[1] In dollars of 1926.

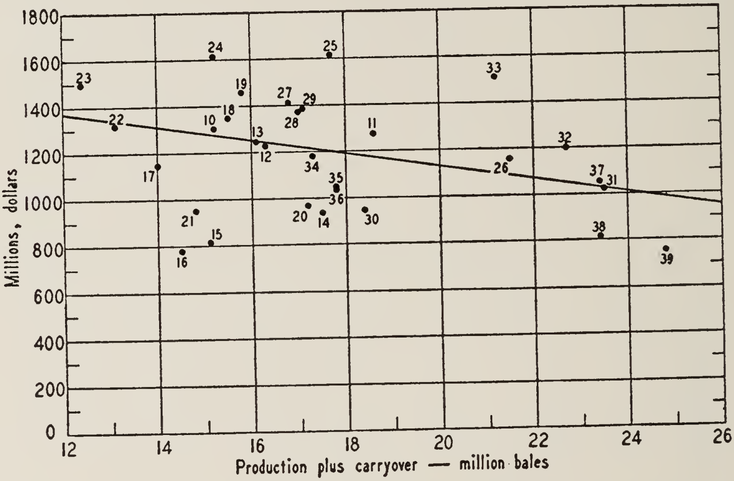

Chart III. *Variations in Total Revenue from Cotton Associated with Annual Production Plus Carryover. Dollars of 1926.*

Study of individual years partly reinforces but mainly casts doubt on the validity of the revenue curve in Chart III. The years 1915 and 1916 may be out of line downward because of the effect of the early years of the European war; 1921, because of the depression; 1924 and 1925 and other near-by years out of line the other way because of weevil damage. The doubts arise from the fact that the combination of large supplies and low revenues occurred in the 30's when the Farm Board first, and later the AAA, were holding supplies off the market and creating big carryovers. Even the middle-sized supplies of 1930, 1935 and 1936 were low in value. The chart would suggest that a sure way to have a low total revenue from a cotton crop is to have a big carryover and grow a smaller crop to offset it. However, if revenue from big crops is counted in the year when the cotton is finally sold, the picture is changed somewhat.

It should be plain that one cannot rely very much on the revenue curve in Chart III to tell him what a crop of any given size will be worth even after making allowance for the current price level and consumer income situation. An 18-million bale supply might be worth anywhere from a billion to a billion and a half dollars, depending on any of a half dozen other influences not thus far separated out, and probably not separable.

If butter, beef, pork or almost any other staple product had been taken as an example, the points in the chart would have come closer to the line than they do in Chart III. Also the two series in Charts I and II would have come closer together. Cotton prices are affected more than most others by export influences and other factors.

Our special concern here, however, is with the general question as to whether large or small supplies will sell for the most money. There seems to be a fairly good basis for thinking that the smaller will, given the same price level and level of employment.

Similar analyses were made for wheat and corn except that all the data were first reduced to a per-capita basis to allow for growth of population. The results obtained are shown in Chart IV. To make comparison easier, the several crops are here expressed in terms of percentages of average crops for the period.

Two relationships are reported for wheat: one for the years before 1920, when the United States was a heavy exporter; and a gentler slope for the years since, when we have either shut ourselves increasingly out of the foreign markets or have been forced out. Our crops were a large factor in world prices, and hence we could have a large crop and still get a good price—just the other way round from cotton. The 1910–20 relationship is about the same as published in *Agricultural Reform.*

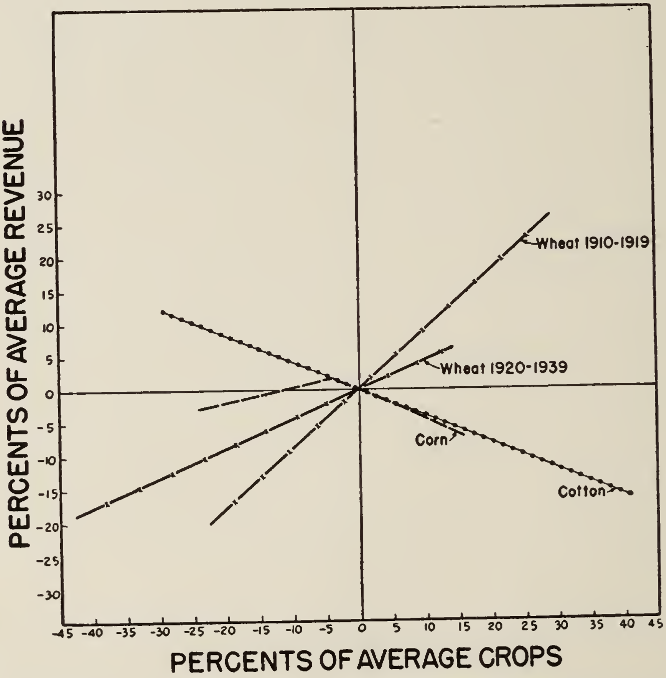

Chart IV. *Total Revenue Curves for Cotton, Wheat and Corn for the Period 1910–39.*

The analyses for corn had to take account of a further factor, a downward trend in corn production and accompanying values of the crop. A crop smaller than the average trend-size by about 5 percent has been worth the most money. Those smaller have increased in value up to this point, at the rate indicated by the revenue curve in the chart; those larger have declined in value, at the rate indicated. This result parallels that reported in *Agricultural Reform.*

These relationships are illustrative of the situation for various types of products. With some, the total revenue falls with increased volume, at least through the entire range of variations in production in the past; with others it rises through the range of past changes in volume; and with still other products, it rises to a maximum and then falls. All too little is known about the relations of total revenue to total production, but fairly clear-cut instances of each of these types can be found.

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Two serious qualifications of the foregoing generalizations must be made. The first is that the result for each product takes the other results for granted. The corn results assume whatever crop of hogs happened to be on hand; and the hog results assume whatever corn happened to be available. Likewise with wheat and rye, with corn and oats, with cotton and wool, etc. They also assume whatever conditions exist in the world external to these crops, except as these can be measured and allowed for, as were price level, business activity, trends, and population growth in the foregoing analysis. The results therefore may not hold true in any abnormal year or period; they are unlikely to hold very true in wartime.

Second, these relationships are all short run. This means that they measure the relation of changes in total revenue to changes in total production under conditions such that consumers are able to maintain pretty much their accustomed volumes of consumption over the years. In one year when the supply of pork, for instance, is reduced, they pay more per pound because they are accustomed to eating a certain amount of pork, and over the years have been able to maintain such a custom because supplies have soon caught up again. Similarly, when the supply is increased, they increase their consumption only under the stimulus of a considerable fall in prices. Eating practices change relatively little from year to year, particularly for large segments of the population comprising those who can afford the kinds and amounts of food to which they are accustomed.

If, on the other hand, a change in the volume of a particular commodity lasts several years, the population adjusts its consumption to it, and the total revenue corresponding to the new volume is considerably different from the total revenue corresponding to that volume in the past. Consumers within a few years adjust their habits to the new volume, discovering new substitutes and becoming accustomed to them.

It is impossible for us, by statistical analysis of data now available, to forecast the effects of permanent changes in volume. But we can be sure that they are far less than the effects of year-to-year changes occurring in the past, when consumer's habits can be taken as more or less given. There is no more fundamental consideration than this in the whole problem of price policy.

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We are interested, it is true, in the effect on total revenue of the volume of output of individual crops. We shall always have special commodity groups which are willing to increase their own particular resources by regulating the volume of their output. But when agriculture goes in for a general program of restriction of output, we must take account of the effects on total revenue of all combined.

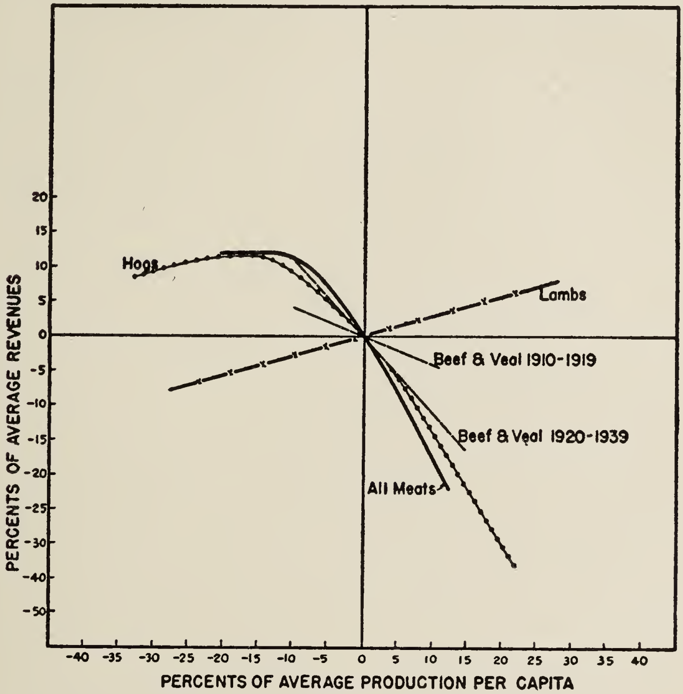

CHART V. *Total Revenue Curve for Pork, Beef and Veal, Lambs, and for all Meats, for the Period 1910–39.*

One approach to the answer to such a question is to combine groups of products into composite revenue curves, as was done for meats in the 1929 analysis mentioned above.[1] The same analysis repeated now gives the results presented in Chart V. Over this longer period also, the revenue increases with smaller total supplies of all meats.[1] But this ceases to be true for supplies smaller than 12 percent below the average, as nearly as one can tell from the few years answering this description. Apparently at the high prices prevailing with very short supplies, the population substitutes other proteins for meats even in the short run.

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[1] P. 192.

When the revenue curves for the different meats are explored, results are obtained which differ markedly from those presented in *Agricultural Reform* in 1929. The new curves for beef and veal and for hogs both slope downward to the right with larger supplies, much like the curves for all meats. The slope is steeper for beef and veal since 1920 than before, due probably to the increasing separation of our cattle industry from both foreign export and import. The new results in part reflect changing relations to the world supply and demand, but are mostly due to fuller analysis at this time of the effects of changes in the price level and business activity and removal of trends.

The revenue curve for hogs is especially worth noting. The total revenue is greatest at 18 percent less than average production per capita. This represents around 65 million hogs and a per-capita consumption of 68 pounds. The decline in revenue for smaller production than this is not apparent in the data for the period 1921–33. In none of these years was production smaller than the maximum. Since then, several such years have been experienced, and the gentle decline of the revenue curve to the left seems to be fairly well indicated.

The competition between beef and pork in the consumer market is of course a factor in the shape of these curves. The analysis shows that when the supply of pork decreases relative to the supply of beef, consumers shift from pork to beef until the price of pork rises in comparison with the price of beef. In the 1919–33 period, when the per-capita consumption of pork rose 10 percent in comparison with the per-capita consumption of beef, the price of hogs fell about 20 percent in comparison with the price of cattle. The exact decline in hog prices relative to beef prices depended on the level of consumption of pork and beef, but was always greater than in proportion to the rise in pork consumption relative to beef consumption. In earlier and later periods, a similar though not identical relation existed. Shifts in consumption and prices also occurred between other meats.

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[1] Poultry meat is included in all meat in this analysis.

Upward sloping revenue curves probably also appear if all fruits are combined, and perhaps if all feed grains. With only some fruits short, the consumers make substitutions. With all short, they pay up instead of shifting to vegetables or cereals or meats. The total revenue from a group of related commodities tends to be more sensitive to changes in volume of these commodities than is the total revenue from any one of them. Possibilities for substitution are more limited; and the more limited are the possibilities for substitution, the greater are the increases in total revenue as total volume declines.

Again the reader must be warned that these revenue curves are short run, based on what consumers do from year to year under usual conditions. If the supplies of meats or of any of these groups were short over a series of years, they would soon begin shifting to other groups and the slope of the total revenue curve would start flattening. How far it would ultimately go, we have no good basis for forecasting.

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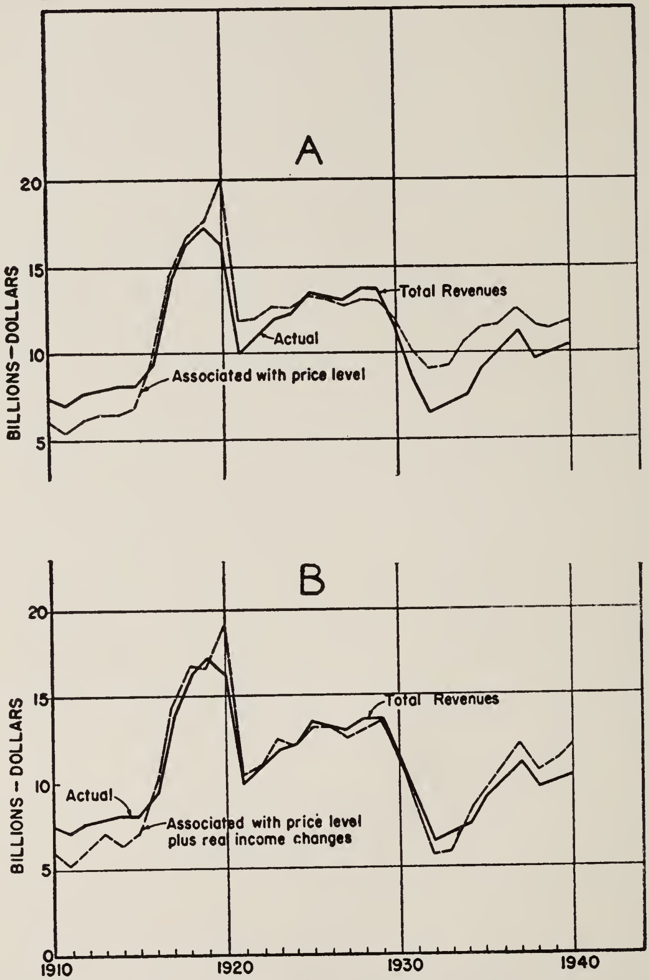

CHART VI. *Changes in Total Agricultural Revenue and, A, Changes in the Same Associated with Changes in the General Price Level; B, These Changes Plus Those Associated with Real Income per Capita; 1910–41.*

(Agricultural revenue includes inventory changes but excludes direct government payments)

The next step in the analysis seems entirely obvious—just combine all the groups and we shall have a revenue curve rising very sharply as total supply falls off. There being no other foods to turn to, there is no escape but to pay up. *But the analysis of the data fails to confirm such an obvious result.* Let us simply follow through step by step as we did with cotton and see where we come out.

*Step* 1. The broken line in Section A of Chart VI shows the changes in the total revenue of agriculture that are associated merely with changes in the general price level. There is evidently not much left to be explained in any other way. Revenues did not follow the sharp rise in prices to 1920, nor drop quite so low in 1921. The largest difference has been that revenues did not increase fully with prices after 1932.

*Step* 2. The broken line in Section B of Chart VI shows the changes in the total agricultural revenue per capita that are associated with price level changes *plus* changes in real income per capita. The fit of the two historical series is still closer. After 1932, real income did not increase as fast as the price level.

*Step* 3. The remaining variations in year-to-year per capita agricultural revenue are associated with volume of agricultural output per capita in the manner indicated in Chart VII. Larger outputs appear to bring the farmer much more income than the small ones. The largest outputs to the right have been bringing the farmers around $5,000,000,000 more of gross income than the outputs about a fifth smaller to the left.

These results are highly significant *if valid.* They seem contrary to the logic of the situation. Obviously the subject calls for further exploration. The first point that suggests itself for consideration is the possible effect of varying exports. Examination of the data by years shows that the high-revenue years came early, when our exports were still large. In a period of heavy production, the nation no doubt has a stronger balance of exports over imports than in a contrary period. The nation therefore is in the world market for total farm products whether it realizes it or not. Even tariff duties and international trade quotas may affect mainly the composition of the trade and not the total balance very much. If this theory were sound, one might expect a total revenue curve for agriculture something like that for wheat.

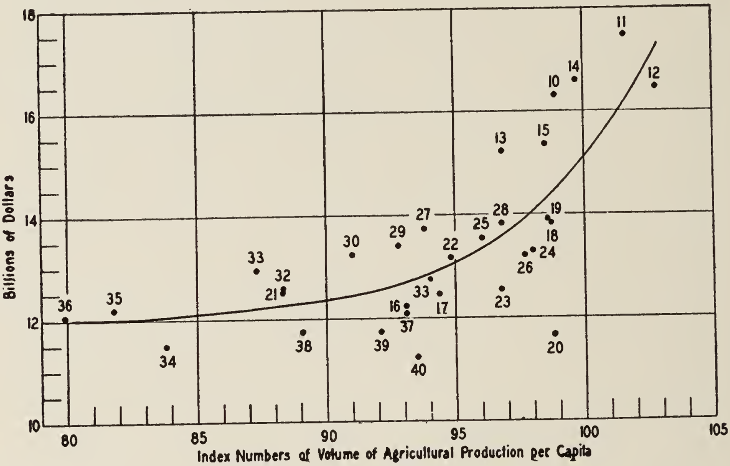

Chart VII. *Variations in Annual Agricultural Revenue with Associated Annual Volume of Output, after Adjustment for Changes in General Price Level and in Real Incomes; 1910–40.*

(All on a per-capita basis. 1910–14 = 100)

Chart VIII seems to support the theory. There appears to be some relationship between total revenue and exports.

Given larger agricultural output, that much more is available for export, and the sale of it brings the nation this much more agricultural income.

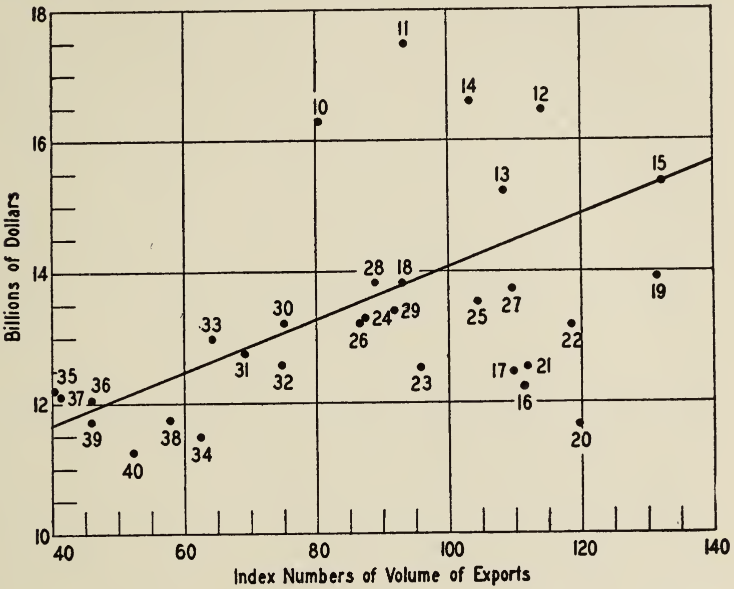

CHART VIII. *Variations in Annual Agricultural Revenue, after Adjustment of Changes in Price Level and Real Incomes, with Associated Annual Volume of Agricultural Exports, 1910–40.*

(Both per capita of the populations. Exports are in physical terms expressed as index numbers on the 1910–14 base)

But unfortunately the years do not lie very closely along the line, and there is a pronounced tendency for the early and late years to be bunched. It seemed best therefore to go back to the data of Chart VII and see if a more realistic explanation could not be found. This the two writers of this chapter think is indicated by Chart IX. Three sets of revenue curves seem to fit these data better than the one big looping curve of Chart VII. The first of these curves covers the years before and during the last World War, when the United States was in the world market for farm products as an exporter in a large way. Total revenues did increase greatly with volume in those years, because prices of our major farm products were always on an export base, and the more we exported the more money we took in.

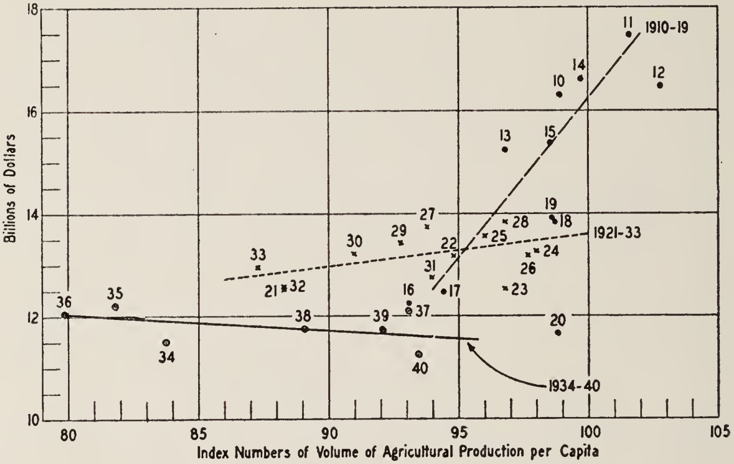

CHART IX. *Chart VII with Three Revenue Curves Fitted to Three Different Periods, 1910–19, 1921–33, and 1934–40.*

(1910–14 = 100)

Then came the transition period of 1921–33, during which we were in effect forcing ourselves out of foreign markets by our high tariff policy. Other nations could not sell to us, and therefore they could not buy, except under severe handicaps. At the same time, the nations of Europe, remembering the war, were trying to make themselves food and fibre self-sufficient. The general effect was still one of some increase in total revenue with larger output per capita.

Since 1934, the United States seems to have been still more isolated from the world market for farm products. Our AAA program, especially the "granary" part of it, as administered, has had this effect. As a result, we find a total revenue curve beginning to appear that slopes downward to the right, like those for cotton, all meats, beef and veal, potatoes, and those for hogs and corn over much of their distances. We have indeed been in the process of getting home-made prices and markets for farm products, in which the smaller the volume there is for sale the higher the total revenue.

In the days when we exported large quantities of most kinds of meat and dairy products, as well as wheat and other grains, if a short year came along we merely exported less. The opportunities today for withholding exports are very limited—mainly wheat and cotton and hogs, and we have been holding the prices of part of these above an export level much of the time anyway. If the home supply of a product is short, the price rises behind the tariff wall. If the home supply is large, we set a sufficiently high loan value upon it to put it into the "ever-normal granary."

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The foregoing explanation is far from complete. If individual years were studied carefully, a half dozen other factors would be suggested. Each year is likely to be different from every other in matters of this kind—just as no one year in the present World War will be closely like any one in the last war. The years that do not fit any of the curves—like 1919 and 1920—will particularly need examination.

Attention has already been called to the suggested effect of the 1901 short crop on the 1902 total revenue. Better examples may be in 1926 and 1937. The general idea is that carryover is less than usual following a short crop, and that this raises the price of products in the ensuing year; the reverse of this following a large crop.

Counting mere level of real income per capita is not likely to be adequate. Probably the fact of rapid business expansion is more important than the average level during the year. Likewise for a pronounced contraction. Demand curves shift quickly at such times. Years in which revenue may have been thrown out of line upward by reason of this are 1927, 1928 and 1937; out of line downward, 1920 and 1921.

War situations cannot be expected to fit into the usual pattern. Total world demand at once steps to higher levels. Some countries can no longer draw on world supplies as before. The rapid rise in some prices since 1940 is explicable only in this way; and somewhat similar price behavior in 1915 to 1919.

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There is one thing more that needs much to be explained. How could it be that in the years before 1933 groups of products, like all meats or all fruits, probably had revenue curves sloping downward to the right, while the aggregate curve for all farm products sloped upward?

Probably the explanation runs along these lines: Even though we did pay up when supplies of all meats were short, we shifted to other foods also. A population like ours has about the same calorie intake of foods one year with another. The foods we normally shifted toward were those which we were always exporting, whose price is determined on a world market. This cut down our exports of these particular products, but did not affect our total food and fibre exports much. Only if supplies of all farm products were short did we cut down much on our total exports. But even when we did this, it did not affect world prices much (except in the case of cotton), hence not our domestic prices. Accordingly, the general level of domestic prices of farm products was not much increased by a relatively small supply of all farm products, and still less by a short supply of a group of products.

Probably the total revenue curve for groups of products depends much on how many in the group are on an export basis, and how important that export is in the world market.

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All the analysis this far has been in terms of gross revenues. Costs do not usually change from year to year in exact proportion to output. *Assuming the same weather conditions*, a larger crop usually entails, at least in the short run, higher unit costs, because of resort to poorer lands and more costly methods of cultivation. These higher costs might offset in whole or in large part the increase in gross revenue of a larger crop of wheat. But with a crop like cotton, any higher costs accompanying larger outputs would further diminish the revenues from larger crops. The same statement should apply to increased production of all meats combined, and of hogs and cattle considered separately. Products with the highest gross revenues toward the middle will usually gain more in net than in gross revenues as output gets larger, but only up to a certain point.

Statements such as these just made for cotton and all meat encounter violent objection from many professors of agronomy and animal husbandry. They say that you cannot make any money on cotton unless you get a bale to the acre. The answer to this of course is that if everybody produced a bale to the acre, no cotton grower would make any money. If most of them do not, the fraction which does will prosper. This fraction may be fairly large in cases in which those getting higher yields follow much improved methods. The right answer in many such situations is fewer acres at higher yields—at optimum yields, not maximum.

The longer-run answer may be different from the foregoing with particular products. Lowering prices may induce, on the one hand, the use of machinery and other cost-saving methods, and on the other some important new uses for the product. Conversely, the higher prices of limited output may support a structure of high costs and lead consumers to shift to other sources or to using substitutes. There can be little doubt that the net revenue from cotton has declined under the nation's program of restricting output in order to obtain higher revenues in the current years. The gross cotton revenues averaged $640,000,000 from 1935 to 1939, as compared with $1,043,000,000 in 1925–29, both expressed in dollars of 1935–39. We can have little doubt that the saving in costs from producing 2,119,000 fewer bales did not compensate for the great loss in gross revenues.

A parallel case is tending to develop in some of our eastern milk markets. Various combinations of collaboration between dealers and organized producers and public agencies have set up a structure of classified milk prices which supports a limited amount of high-cost production based largely upon the use of shipped-in concentrates. More and more of the milk products consumed locally come from distant sources. Lower-cost methods based on modern techniques of forage production would increase the total and net revenues of the milksheds because of greater local production, and also of the individual dairymen.

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*The conclusion to be drawn from the foregoing analysis is that producers of some individual crops can for a few years increase their gross revenue from it by reducing output, and even more their net incomes. Cotton is probably an outstanding case of this. It used to be, anyway. Potatoes could be another. Hog producers can do the same thing, but only down to around 65 million head; beyond that the declining gross revenues and costs are likely to be about equal.*

*The analysis also indicates, again for a few years only, that if the total supply of all meats were to be reduced, the gross and net revenues would be increased up to a point well below the average. One would expect a parallel conclusion for some other groups of products.*

*A general reduction in output of all farm products would appear, at least for a year or two at a time, to increase the gross agricultural revenue a little, under the conditions of world trade and controls of prices and output that have prevailed in the United States and abroad since 1933. Whether it would increase* net *revenues even in a single year is considerably to be doubted.*

*Even for groups of food products, like meats or fruits, the weight of judgment and of such historical evidence as there is, is to the effect that the consumer will in a period of five years or less shift sufficiently to other groups of products to reduce gross and net revenues.*

*In the case of fibre, the same result will come even more quickly by reason of a shift to rayon and other substitutes.*

*For most individual products, there is likely to be enough substitution within three years to cancel out any temporary gains of the first one or two.*

*If the product is one which depends on an export outlet, this outcome will follow more promptly because of transfers of buying to other countries. An exception to this statement will need to be made if any country has a virtual monopoly of suitable land resources, such as we once mistakenly thought was true for cotton, or the product is one that takes time to come into production, like rubber. Such a product, in addition, must be one with important uses for which no substitute can be made available. Few foods are in this bracket.*

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*Production adjustment programs therefore should not be conceived of as increasing the total revenue from farm products by reducing their aggregate agricultural output year after year. Instead they should be directed toward smoothing out irregularities in supplies such as are produced by unusually good weather two years in succession, by production cycles, by over-responses to good prices and the like, and toward hastening readjustments made necessary by sudden developments, such as the invention of new farm machines, the opening of new producing areas, unexpected loss of markets, business depressions, wars and the like.* These were the conclusions of the writer at the end of the three-year study of the AAA in which he participated along with Dr. E. G. Nourse and Dr. J. S. Davis; and developments since have proved them to be even truer than he anticipated then.[1]

* * * * *

Conclusions such as the foregoing are only summaries of past experience. Applied to the future, they assume that the people then will behave approximately as they have in the past. They also assume a social and economic order in which people will be reasonably free to spend what income they have for the things they want. Perhaps during the war years these will no longer be true. Perhaps we shall have to modify our living in ways that will make such conclusions less applicable, and perhaps some of the changed ways of living will carry over into the early post-war years at least. It is far too early to have any judgments on such a matter.

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[1] E. G. Nourse, J. D. Black and J. S. Davis, *Three Years of the AAA*, Brookings Institution, 1936. Pp. 486–87.

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The big depression of the 30's, and the vigorous measures taken to deal with its aftermath, may themselves represent a sufficient departure from the order of things in 1910–33 so that conclusions such as those stated are already old-fashioned. The possibility of this was kept in mind in all of the analyses here outlined. Certain effects of these measures have already been pointed out. But in general, the recent years fit into the general pattern of the three decades. Hence, unless our social order is going to be revised more drastically than thus far, we shall not need to revise our conclusions even if the New Deal runs on for another decade or two.

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If farm people cannot improve their conditions by holding up the consumers, what then can they do? Fundamental maladjustments of the sort revealed by this study cannot be righted in a few years. The changes called for are likely to be simple, but not easy to make—such things as the following:

1. Increasing the resources of land and equipment per farm family, especially in the low-income areas. This includes also improving their resources.
2. Getting more farm products consumed, especially by

low-income city and farm families—not more of just calories, but more dairy products, meat, eggs, fruits and vegetables.

3. Getting farm families to devote more of their energy to improving their living directly and less of it to production for the market.

Increased consumption will not provide a market for all that the present six millions of farmers would produce if they had adequate resources to work with, but it will go a good way in that direction. The rest should not be farming —an expanding industry should require their services.

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Secretary Wickard has been credited often in the last year with having shifted his position from advocating "scarcity" to advocating "abundance." An article appearing in *Time* last summer, under the title "Food Will Win the War," seems to support such a statement. Likewise many other public utterances since.

*If* he really has made such a shift, then it is proof that he really was thinking of the AAA program as a scarcity program while he was helping to administer it. *There have been AAA administrators who have thought in this way.*

Nevertheless this is a distinctly different way of looking at the AAA program than was prevalent among those who fostered it in its early years. And Secretary Wallace was always careful in his day to describe it in terms of a "balanced abundance."

The AAA program always has included restriction of output of particular products—products whose output has tended to get out of bounds—cotton, wheat, corn and pork, and tobacco. The output of these has been excessive in several senses. First, the market has been oversupplied.

There is always a tendency to over-exploit virgin soil—conspicuously illustrated by cotton growing at present in the Mississippi bottoms, wheat in the Palouse and Big Bend of the far Northwest, and by dry farming areas generally. Some believe that the best method of dealing with such conditions is to let prices induce the adjustments needed; but much hardship and waste of resources result from following such a course. It gave us the Dust Bowl. There has also been some restriction of output in cases where production has been excessive due to widespread over-exploitation of the soil by particular crops like corn. The volume of output in such cases cannot be continued. The race is a long-distance one, not a sprint.

The real change that has come with the war has been of another nature. It consists of the *inclusion of some domestic consumption adjustment along with production adjustment.* This should have been in the program from the beginning, particularly as affecting dairy products and meats. The Boileau Amendment, designed to restrict increased use of forage by dairy cattle, would then not have been passed. The same groups forced passage of Section 32, providing for disposal of surplus commodities by direct purchasing. This was the second string to their bow. The stamp program and its later expansion is a national development of the same general type; likewise the FSA's live-at-home program. More recently has come the nutrition program, which is also an approach from the consumer end. We are approaching a stage where we shall find out what food is needed, and then get it produced.

In line with the foregoing, *the production adjustment program has shifted from restrictive to promotive form—from negative to positive.* It does not stop with saying: only so many acres in cotton or wheat. But it is beginning to say instead: so many acres before in cotton or wheat are to be shifted to these other products which are needed more. This procedure is not yet carried far enough. The USDA is now trying to do it largely with simple price incentives such as the announced prices for butter, eggs, pork, soybeans, peanuts, etc. It will find that more than this will be required if its goals are to be achieved.

Thus far, all the former restrictions on output of cotton, wheat and other "surplus" crops are in force, even those designed to protect the soil from over-exploitation. There may, however, be some revisions of these restrictions before long.

## CHAPTER XVI

# *THE FARMER'S INTEREST IN WAGES*[1]

A question as fundamental to any discussion of parity as scarcity *vs* abundance is that of what the farmer gains or loses from higher wages. The normally reacting farmer does not applaud when someone proposes a general wage increase. He knows even without thinking that a wage increase will make him pay more for a job of carpentering the next time he repairs his barn or builds a silo; and that presently it will step up his truck and tractor repair bills and raise the price of farm machinery. If he stops to think about it, he realizes that it will also raise his tax bill and widen the margin taken by the middleman agencies, processors and railroads from what he sells as well as what he buys. Finally, he understands that the cost of his own supply of hired labor is more or less tied in with the wages paid in cities roundabout him.

In recent years, however, a good many folks of one description or another have been trying to tell him that his normal reaction is wrong. No doubt the most conspicuous example of this was a leaflet issued by the Wage and Hour Division in 1940 under the title, "Higher City Earnings Raise Farm Incomes." A stack of these was sent out to the county agent offices in the winter of 1941–42. Take note of the following excerpt from it:

> "The vast majority of America's nonfarm families are wage earners. They work in factories—textile mills, shoe and clothing

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[1] Mr. Marion Clawson assisted with the analysis and writing of this chapter.

factories, canning and packing plants—and in the transportation, communication, and wholesale industries.

One-third of all American families and single individuals in 1935–36 had to live on less than $780 a year.[1] They could spend for food on the average only 6 cents per person per meal. If they could have spent 8, or 9, or 10 cents a meal per person, hundreds of millions of dollars would have been added to farmers' incomes.

When earnings of city workers rise, farm incomes also go up. Secretary of Agriculture Henry A. Wallace recently pointed out that in 1929, when pay rolls were 12 billion dollars a year, farmers' incomes also totaled about 12 billion dollars. During the depression farm incomes and pay rolls went down together until in 1932 both stood at about 5 billion dollars for the year. By the end of 1939, both had climbed back to a level of between 8 and 9 billion dollars.

Farmers' incomes and industrial pay rolls rise and fall together!

The Wage and Hour Law helps farmers by requiring employers (if engaged in interstate commerce or in the production of goods for interstate commerce) to pay their workers not less than 30 cents[2] an hour for their work. In 1939 many millions of dollars were added to workers' incomes. Also, in 1939 cash farm income totaled half a billion dollars more than the year before, when there was no Wage and Hour Law."

The writer heard the same line of argument worked out in more detail by a staff member of the Department of Agriculture at an Extension Conference in Alabama last winter. The major problem confronting our society today, so the line began, is that of getting our economic system to operate at full capacity and to keep it there. It fails to do this now because the savings from the increasing efficiency of industry are not passed on to the consumers. As a result, consumers do not have enough income to buy what is produced. Business profits are absorbed for a while in plant expansions, new office buildings and hotels, and more country clubs and yachts; but presently profits begin to pile up in brokers' hands and start a wave of speculation which leads to another crash. There are two ways in which the savings of greater efficiency can be passed on to consumers—in lower prices of the product and in higher wages of those who make the products.

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[1] Report of National Resources Committee, 1938.

[2] For the greater part of 1939 the minimum wage was 25 cents. The 30-cent rate did not become effective until October 24. (It is 40 cents now in some plants.)

So far, the argument is familiar enough. Now comes the new line. The first of these two ways would be the better, but we have been talking about doing it that way for several years and haven't made any progress. The way our capitalistic system works, we are not likely to get anywhere that way. In the meantime, wages have managed somehow to rise again out of the depression, and these higher wages are supporting a gradually expanding recovery.

More than this, agriculture is sharing in this recovery. This can be demonstrated easily. Numerous studies of the factors affecting prices of farm products have shown a close relation between increases in industrial worker payrolls and increases in the prices of butter, pork, beef, eggs and the various types of farm products. The Department of Agriculture has been perfecting its measures of non-farm consumers' incomes, and the better they get the more clearly they show that prices of farm products are greatly dependent upon the buying power of industrial and other urban workers.

Then the beautiful parable of the two 12 billions in 1929, the two 5 billions in 1932, and the two 9 billions again in 1939!

Need you be informed that this was more medicine than most of the extension workers in Alabama could take?

Most of those who spoke out took a strong position in favor of lowering the prices of industrial goods rather than raising wages. That would benefit them as well as it would the city workers' families. In fact, it would benefit the whole population except the big stockholders, and even them in the long run. A seasoned county agent also wanted to know if the higher urban wages do not raise the prices of things farmers buy more than they increase the prices of farm products through improved demand. To be sure, most of them were also thinking of the 35 and 40 cents being paid in cotton mills in their state, set over against the 15 cents paid during the summer and fall in the cotton fields.

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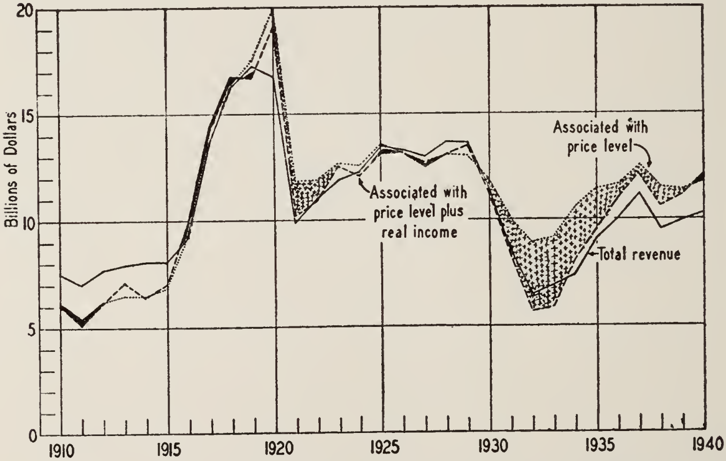

CHART I. *How Much Changes in Non-Farm Real Income Add to, or Subtract from, Changes in Price Level as an Explanation of Changes in Total Agricultural Revenue per Capita, 1910–40.*

(The hatched areas represent times when including real incomes gives a better explanation of agricultural revenue than price level alone; the black areas times when including them gives a poorer explanation.)

There were also some in the hall who refused to take seriously the parable of the billions—than which a more flagrant piece of propaganda seldom has emanated from any office public *or* private. Chart VI in the preceding chapter showed that most of the changes in farm income per capita since 1910 have been associated with general price level changes. Involved in this relationship is the circumstance, also pointed out in the last chapter, that farm prices always swing over a wider range than do wholesale prices in general. Chart I accompanying attempts to show in one chart how far price level changes go toward explaining changes in total revenue, and then how much more is added to this explanation, or in a few years subtracted from it, by combining changes in non-farm per capita real income with it.[1] Most of the time they help with the explanation by bringing us nearer to the revenue line. This is notably so in both depression periods. This means that in these years the agricultural revenue was well below the price level line, and that low real incomes in these years probably account for it. Unemployment reduced income and buying power to lower levels than is indicated by the price level, and this was reflected in farm income and agricultural revenue. Apparently the persistent unemployment in the years since 1934 has continued to have the same effect, but in declining measure, until in 1940 it had vanished. Apparently earnings did not rise as much as prices in 1919 and 1920, and this helped in a small way to explain the failure of revenues to keep up with prices.

A statement of the relative effects of price level and real non-farm income in more nearly quantitative terms would read about as follows: In the decline in 1921–22 of 7 billions in agricultural revenue, 1.5 billions was associated with decline in real non-farm income and 5.5 billions with decline in general price level. Of the decline in 1929–32 of 7.2 billions of revenue, one-third, or 2.4 billions, was associated with decline in real income. Of the 2.5 billions which agricultural revenue in 1937 was still short of the 1929 level, half was associated with lower price levels, a fourth with lower real income, and another fourth with something else.[1] In the remaining years, price level and real income changed so nearly together that the two effects cannot be separated.

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[1] In 1910, 1911, 1916–18, 1925, 1927 and 1940, combining real income with price level takes us slightly farther from the revenue line than without it. Real incomes are actual money incomes adjusted for changes in the cost of living.

One may conclude from the foregoing analysis that in general at least twice as much of the ups and downs in agricultural revenue in and out of depressions is associated with price level changes as with real non-farm income changes. This leaves real income still playing an important role in farm income, but not the *complete* explanation offered in the Wage and Hour leaflet.[2]

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[1] See Charts VII and IX in Chapter XV for the explanation of the remaining divergencies in this chart.

[2] The writer is aware that this statement of the wage-farm income relationship will not be accepted by some of those in the Department of Agriculture who have perpetrated the analysis out of which came the Parable of the Billions. For one thing, they have too much of a vested interest in it. What they will say, among other things, is that the wholesale price level index is not a suitable index to use in measuring changes in the prices that are associated with farm incomes. They are of course right. But this does not mean that using such an index invalidates the results. Use any other available index and the results are closely the same. Or construct a new one that roughly meets specifications and they will come out the same way. The essence of the matter is that some sort of separating out of the effects of price level changes on agricultural revenue is needed before the effects of changes in real buying power can be observed; and an approximate separation is far better and much less misleading than none at all. Of course the same statement applies to demand curves. We have enough construction of "rubber dollar" demand curves and total revenue curves in the last ten years to lead a whole generation astray.

Analyses like the foregoing for separate products give results closely in line with those for all products. Changes in real income go farthest in explaining changes in total revenue from cotton, and the least distance in explaining changes in corn revenue—with hogs, beef cattle and sheep falling in between from most to least in the order named.

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What the foregoing statistical analysis suggests is that it is not wage increases for urban workers that help the farmers out—it is instead simply the return of workers to their jobs. *It is unemployment that hurts*, and *employment that helps.* The changes since 1933 are particularly impressive on this point.

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This statistical analysis of the relation between urban wages and farm income fits in with an historical analysis of it. The historical relationships between urban wages and farm incomes seem clear enough. In so far as the big increase in real urban wage rates that occurred in 1918–22 came out of what otherwise would have gone to property and enterprise income, it was good for the farmers too, at least in the short run. There are good reasons for thinking that it increased the consumption of butter, eggs, meat, fruit and other relatively expensive items in the food bill, and was a factor in the favorable ratio of livestock to grain prices during the 20's. The recipients of property and enterpriser income are always able to buy about all they want of these more costly foods.

But in so far as the larger real wages of labor came out of what would otherwise have gone to farmers, the answer is very different. And the evidence is convincing that much of the increase in real wages just at the end of the war did come out of farm incomes. It came out of farm income because it added to the expenses of farm production and of farm family living much more than it did to farm receipts. From 1922 to 1925, however, agriculture was gaining on labor. The new buying power of labor was helping farmers out, but it surely was buying power from more jobs as much as from higher wages.

However in the latter half of the 20's, until 1928 at least, the evidence is equally clear in Chart X in Chapter VII and elsewhere that agriculture was losing out on its *share* of the social income relative to labor. It was gaining, however, relative to its own past record of earnings. The total national income was advancing rapidly, and agriculture was sharing in it. This came about probably in two ways: first, the urban laboring classes spent more out of their larger incomes for foods; and second, the prices of some articles used by farmers declined, notably of automobiles and trucks. But it was not sharing at a rate equal to that of labor. And these statements are per worker and not aggregate.

It has been said that as long as agriculture was sharing in these gains at all, it should have been content. It was not much responsible for the big gains of those years—they came from the amazing rise in the output of industry in this decade, to which attention has already been called.[1] All right, let it go at that for a moment.

Then came the grand slide into the pit in 1929–32. Agricultural income per worker fell off to 60 percent of that of other workers, even including all the unemployed (the whole non-farm "labor force"). What was labor contributing in these depression years to entitle it to be fed and clothed with the cheap produce of our farms? It looks as if industry and industrial labor had better share some of their riches with agriculture when they have them to spare! They may need some cheap food again very soon.

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[1] Pp. 89–90.

Out of the recovery from the depression, agriculture gained on industry and labor until 1937—as it had in 1922–25. Here again we see agriculture gaining from the return of workers to their jobs. From 1937 to 1940, however, the history of 1925–28 began to repeat itself. The record of the whole period from 1932–40 is one of a rapid rise in hourly rates of wages, shorter hours and more pay at the same time, with agriculture again in decline after 1937.

Thus only in two short periods since the last war—1922–25 and 1932–37—has agriculture been increasing its share of the income per capita relative to labor. In all the other years, the more rapid rise in wages than in prices received by farmers has been either to the absolute disadvantage of agriculture, as it was at the end of the last war, in that it has increased the cost of goods bought by farmers more than it has raised prices received by them; or to its *relative* disadvantage, as in 1925–28.

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The foregoing analysis in historical terms fits in with and reinforces the statistical analysis. Increased real income of non-farm workers has helped agriculture out at times, but mainly when it has come about through fuller employment. The wage increases in 1925–28 gave agriculture more income per capita than it had had from 1922 to 1924, but decreased its share of the national income. The depression decreased agriculture's per capita share both relative to itself and to the whole. The recovery following would have been better for agriculture if employment had risen more rapidly and wages less rapidly.

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One of my colleagues at Harvard University [1] has called my attention to the fact that Russian economists, and after them, certain German economists, have been accustomed to speak of agricultural income and labor income as behaving like the blades of a scissors, with agriculture tending strongly to get less than its share of the national income whenever labor gets more, and vice versa. This is a manner of speaking of the subject something like our idea of parity. The period from 1920 to 1940 illustrates the scissors action very well—the blades coming together in 1922–25 and 1932–37, but presently opening again.

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We must make sure that we are understood when we say that a more rapid rise in wages than in farm prices need not be to agriculture's disadvantage, and has not always been so in these two decades of agriculture-labor relationships. It will not be true if labor's productivity increases with its wages, and this greater productivity is passed on in some measure in lower priced goods bought by farmers, or in a better quality of goods for the same money, which amounts to the same thing.

There are differences of opinion among students of labor and employment as to how much of the increased productivity of labor should be passed on to consumers in lower prices. There are some who point out the practical circumstances that much of labor now works on a piece-rate basis, and that unless piece rates are cut with increasing efficiency, hourly earnings are sure to rise. In practice and in the aggregate, piece rates do tend to rise with increasing output per worker, but not proportionately. These economists may also point out that so far as agriculture is concerned, if wages rise exactly in proportion to productivity, farmers will gain from the increased buying power of labor at no extra cost to them of industrial products. A rise in wages, furthermore, will contribute to a rise in the general price level, from which agriculture will benefit. The converse of this, they say, is that if wage rates were not to rise at all with increasing output per worker, and all of the savings in unit costs were to be passed on to buyers in lower prices, there would tend to be a decline in the price level, which farmers would not like. There seems to be mixed up in this statement of the problem the general notion held by many that a slowly rising price level is better for an economy than a slowly declining one.

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[1] Dr. Hans Staehle, associated for seven years with the Economic Section of the International Labor Office of the League of Nations before coming to the United States.

The other point of view on this problem starts from a belief that unless there is to be unemployment, there must be a general increased buying power among the whole rank and file of the people—factory laborers, mine workers, white collar workers, farmers, salary receivers, rent receivers. Only thus will there be absorption of the additional output of factories that must accompany increasing output per worker. And the exponents of this point of view see no other way to attain this increased general buying power for factory output except to lower its price so that more people can buy more of it. A mere rise in the general price level helps very little to that end, and normally is followed soon after by a rise in the cost of living.

The author's position in this book is between the two foregoing, but a bit nearer the second. He considers that as a matter of practical administration in any one plant some increase in hourly earnings must take place with increasing output per worker. But he also holds that unless the price of the product is also lowered, a point is soon reached when not all the workers are employed. The tendency in such situations is for hours to be shortened—the "share the work" idea takes hold. The workers then tend to get the same amount of money for less work. Their annual earnings increase little if any. They would have been better off with lower prices for the products of the factories, larger sales, and more employment at somewhat lower hourly earnings.

Your attention has already been called to the way in which shorter hours and rising hourly earnings tended to absorb the gains from rising output per worker in the recovery from the big depression in the 30's. The net effect of all these changes seems to have left the labor costs of factory output about the same in 1939 as in 1929, after allowing for changes in the general price level. This means that *if* any gains from increasing output per factory worker were passed on to the farmers, they surely did not come out of labor's returns.

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Such analysis is not complete without bringing into it the share of capital and the enterprisers in the gains from increasing efficiency of industrial production. Wage increases that are only proportional to increases in output per worker affect capital's share very little. Wage increases greater than this could come out of capital's share without affecting agriculture. The usual assumption of unthinking people is that wage increases always come out of profits and interest, and that's the end of it.[1] The aforementioned leaflet from the Wage and Hour Division quotes Secretary Wallace on the subject as follows:

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[1] It is easy for farmers to forget, in the heat of argument, that they too benefit from cheap printing, the telephone, electric lighting, the radio, the automobile and other great achievements of industrial progress—to be sure, some of them not very much.

> "Changes in the ability of consumers to buy have much greater effects on farm prices than do marketing costs. . . . If profits are increased at the expense of pay rolls, farmers suffer along with labor. A very large share of the pay received by those with low incomes goes to buy food and clothing. Workers receiving 30 cents an hour or less spend almost half their incomes for food and clothing. If their pay is cut, half of that cut must come out of their expenditures for farm products."

It is strictly true that the more of the income from an industry which year in and year out can be passed on to its employees in higher wages, the more agriculture will benefit from it—but only if the product is *not* one that farmers buy, *and whose price is not rising because of the higher wages.* Farmers are well aware of too many instances in which industrial leaders and labor leaders have in effect compromised their differences in such a way as to pass on higher wages to the consuming public. Vigorous price competition is sufficiently absent in enough industries to make this easily possible.

Our analysis of the history of the earnings of capital and the enterpriser in Chapter VIII indicates periods in which in general this share of the social income has mounted rapidly—notably 1925–29. In the recovery from the last depression, a mild tendency in the same direction may have begun to assert itself in 1937. All of the higher wages which, in the aggregate, were paid in the 1925–28 years were easily spared from profits. More could have been used to advantage in this way. But it may still be true that it would have been better for agriculture, and even for most of labor too, if more of what went into wages could have gone into lower prices of industrial products.

The general trend since 1910 has been for capital and the enterprisers to receive a slightly smaller share of the national income—not only as an aggregate, but probably per enterpriser. This is in spite of the fact that production is being carried on with a rapidly increasing quota of capital goods per worker. The increase for agriculture has been 55 percent since 1910. For industry it has been much more. The lowering of interest rates has been a powerful factor in the reduction in the share going to capital.

Most economists consider such a trend desirable. There are humanists who object, because, they say, it does not give us so large a cultured leisure class. The question that some economists would be likely to raise about it is whether the reward to enterprisers may not have been so low at times as not to encourage enough new enterprises; or whether the supply of "venture capital" has not been too restricted at times for the good of both labor and agriculture.

The way in which the rest of society can help agriculture most is to get every urban dweller at work, and then provide a big vacuum in addition that will draw in the surplus farm population of the over-populated "rural" areas. If it could be proved that wage increases had discouraged new enterprise, and prolonged unemployment in consequence, then agriculture would have good reason for opposing wage increases on this score alone.

The writer does not doubt that recovery from the depression of the 30's would have been faster if it had been allowed to take place as in times past by letting profits mount freely without let or hindrance. You will remember Andrew Mellon's theories on this subject, and how they were actually put into practice by two rapid reductions in taxes on business profits.

The New Deal theorists wanted a "sound" recovery rather than a quick one, one that would not end in another stock market orgy and another business collapse. In working toward that end, they may easily have delayed recovery more than was good for agriculture and the nation generally. In retrospect, it seems clear now that the program of subsidized economic activity which the New Deal was obliged to improvise to take the place of the usual type of business recovery also led to business collapse in 1937–38. In fact, a business collapse that would have to be described in considerable measure as publicly induced and almost engineered. The timing of the public spending was not fortuitously handled, except possibly in a political sense. To be sure, the depression may have been less severe than what would come under the usual conduct of business, and society may have been in better shape to take on the war in 1940. But certainly a very good case can be made to the contrary.

A major factor in the poor working of the economy in the last few decades is that much venture capital has the wrong kind of reservation price. It is not interested in moderate rates of return, but prefers to gamble on large rewards. This is a natural inheritance from the frontier years of the republic when vast natural resources were made available for exploitation. In this more mature stage of the economy, secure rewards will have to take the place of an uncertain but somewhat higher average return. It takes time for any dominant group to revise its attitude as completely as is called for in this situation. In the meantime all classes of society suffer. They suffered severely from this attitude of the venture capitalists from 1933 to 1940.

* * * * *

Agriculture also has an interest in which classes of labor get the higher wages. If a rise in wages taken out of profits were received solely by the most poorly paid workers, more money would be spent for food than if it went to better-paid workers. An increase in annual earnings of $100 to a family with earnings of $600 would result in a greater increase in expenditure for food than would be lost through an equal curtailment of income of a family with earnings of $2000 to $3000. Agriculture's gains from fuller employment can be explained along similar lines.

* * * * *

Our analysis of the relation between agricultural income and wages proper—wages as distinguished from employment and annual earnings—may be summarized as follows: If real income, price level, and hence national income, be taken as not fixed, agriculture's income is still likely to fall, at least relatively, if real wages are raised at a faster rate than is justified by changes in price level, real income, and labor productivity. If real income per capita is increasing rapidly, then wages may rise without a fall in agricultural income; agriculture may simply fail to share in the rise in real income. This seems to have happened in considerable measure during the last twenty years. But under such circumstances, wages may also advance more rapidly than real income, with a resulting actual loss to agriculture. If wages are advanced very rapidly at any time, agricultural income is rather sure to fall.

*Agriculture's interest in industrial wages can be stated simply: Wages should rise when price level and/or real income or labor productivity rises, and only to the extent indicated by such rises. Furthermore, the gains from greater productivity must be passed on to agriculture in some measure as lower prices for industrial goods. Under these circumstances, agriculture will gain from wage increases. Under other circumstances, agriculture is very likely to lose* *from wage increases. Historically since the last war, most of the time agriculture has lost from wage increases, but has gained from increased urban employment.*

It follows from the discussion in this chapter that the Parity balance can be tipped in the direction of labor away from agriculture—apparently easily in phases of economic cycles like the present. It therefore behooves agricultural leaders and agricultural economists to watch closely all changes in industrial wages and to analyze them thoroughly from the several points of view explored in this chapter. Such analysis must be very prompt in times of rapid change like the present.

* * * * *

The relation between agricultural incomes and wages of agricultural labor is still another problem, outside the scope of this volume. But let one statement pass at this time, to the effect that the slow migration of farm population to the cities in the 30's, resulting from the continuing burden of urban unemployment, created an unhealthy wage situation on the farms of the United States that the war is likely to change greatly, and let us hope permanently. Agricultural production, when it can, must adjust itself to this new wage situation.

CHAPTER XVII

# *INFLATION AND THE FARMER*

Almost the single object of the price control measures which have run afoul of the Farm Bloc in its quest for parity, is to prevent an inflationary spiraling of prices and wages that will make the conduct of the war itself doubly difficult, and leave us at the end with a trebly difficult problem of readjustment. Nevertheless, not much space in this book will be given to inflation as such. Nearly everybody knows enough about inflation already to serve the purposes in hand. One chapter will deal with the effect of inflation on agriculture, and another with methods of control.

* * * * *

Fortunately for our understanding of the effect of inflation on agriculture, we have before us, very close at hand, the parallel of the last war. Only the other day a man from Iowa still young enough to be a graduate student related to a group of us the bitter details of the foreclosure of his family's farm in 1924, and how, in the period from 1921 to 1927, every third farm in his part of the county changed hands because the owner could not hold on to it. At one time only one bank was open in the whole county. The writer himself, in the war and early post-war years, was a young economist just fastening on his spurs and getting ready for action.

As to how good a parallel the last war experience is for the present one, there may be some divergence in opinion.

The last war stretched out longer before the United States became involved in it, and we were not so much concerned with it in the years before we got into it ourselves. More of our people believed that we would be able to keep out of it in the years before we did become involved in it. But none of these things affected price movements, once the war was close upon us.

In matters closer to agriculture, we were not so much afraid of food shortage a year ago as we were at the time we were about to enter the last war. We had surpluses of several major products this time and none last time. But on the other hand this is a bigger war and will draw more heavily upon the food-producing capacities of the Western Hemisphere. More food supplies are being shut off from the nations fighting with us. The same is true for many other essential war materials, such as metals, rubber, and oil.

We are more concerned with preventing inflation this time than last. We have our remembrance of the experience of the last war and post-war to stimulate us to more vigorous action. We are now able, in retrospect, to realize how innocent we were about this whole problem during the last war. We did not take it with one-tenth the seriousness which it deserved. The same is true of Great Britain, Canada and the other allied nations. With all of them in the same state of mind as we, and pursuing policies more or less like ours, the chances of success are much improved.

Of course, we think we know much more about handling a problem of this kind now. We certainly have had much more experience with the essential methods of control. Back in 1917 we were still living in a dream world of supposedly automatically balancing prices and money and international exchange. We had only faint glimmerings of ideas as to how the World War could shatter such a world. We have been living ever since in the midst of disruptions and of controls directed toward them.

The most important single difference between this war and the last one, from the standpoint of the inflation problem, is the greater magnitude of the present involvement. Other things being the same, we will have a proportionately larger inflation and subsequent deflation. There is nothing about it that gives us reason for thinking that if we handle our fiscal and price policy the same as we did last time, we will not come out in a similar or worse position.

* * * * *

The most severe effect of the last war inflation, it is now evident from our analysis in this book thus far, was upon wages of urban labor. Such wages, we have shown, were lagging in the decade before the last war and needed to rise. But the rise that came was too much, and what is more important, altogether too sudden. If the rise in real wages that took place between 1918 and 1922 could have been spread over the whole decade of the 20's, agriculture would have been able to adjust itself to it without any serious consequences. As it was, agriculture was in good part adjusted to the new wages by 1929. But the accumulated consequences of the maladjustment during the preceding years, plus the remaining maladjustment, left agriculture in a poor position to meet the serious reverses of the depression which presently ensued.

The rise in urban wage rates of course contributed largely to important increases in cost that affected agriculture adversely. The cost of building construction rose precipitously during the war and did not subside much afterward. Building rents remained pretty much at their new high levels.

These higher rents plus the higher wages added to the cost of distribution of farm products between the farmer and the consumer. Chart I indicates that margins on 58 foods had risen well toward the level of hourly wages by 1920, and that they stayed not very far below them until 1935.

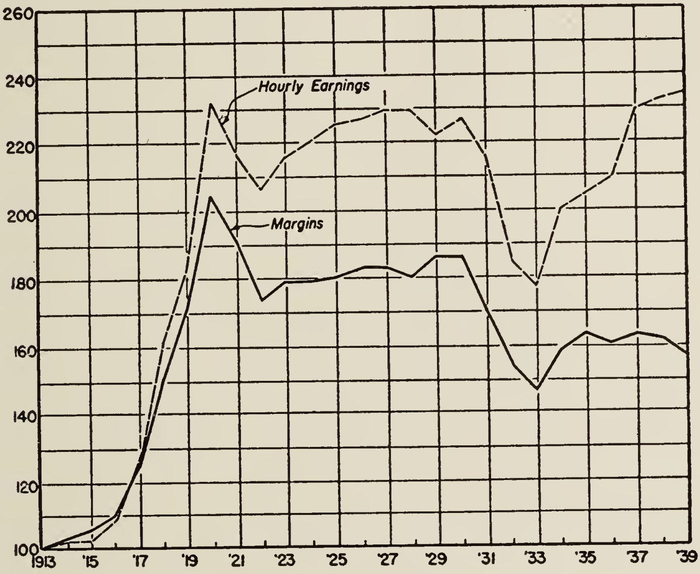

Chart I. *Margins on Food, Hourly Earnings of Workers, and Prices of Farm Products.*

(1913 = 100. Adapted from Figure 5 in *Price Spreads between the Farmer and the Consumer*, BAE.)

These high margins were distributed somehow or other between higher prices for the foods paid by consumers and lower prices received for farm products at the farm. Apparently there were no gains in marketing efficiency to offset the higher wages and rents until the new rise in wages set in in 1935. In dollar terms the margin paid by a typical

American workingman's family on a year's supply of these 58 foods averaged about $120 in 1910–15, and around $215 from 1923–29. Partly as a consequence, the annual food bill of such a family rose from around $260 to $410.

The way in which these higher wages contributed to higher taxes, freight rates, and prices of farm machinery, is revealed in Chart II, which has been adapted from a chart from a recent publication by the Secretary of Agriculture called *Farmers, Farm Prices, and Inflation.* In general by 1925–29, freight rates and farm machinery were pretty well aligned with farm prices. The disparity was in the years from 1920 to 1925. Taxes had risen to a very high

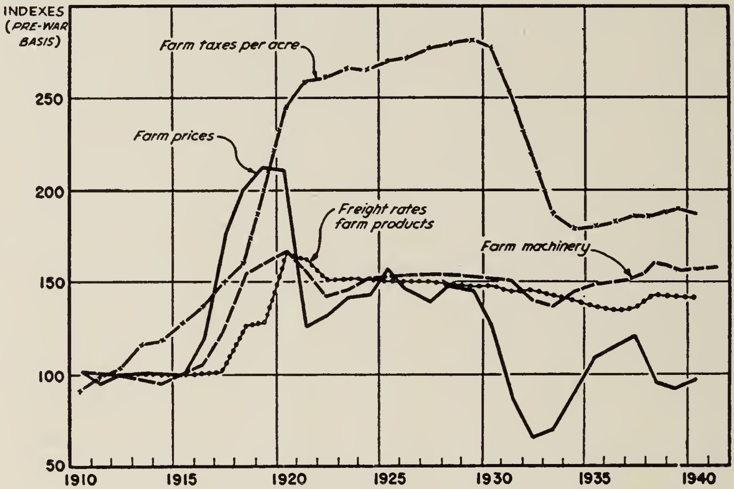

CHART II. *The Effects of Inflation and Deflation on Farm Taxes per Acre, Freight Rates for Farm Products, Prices of Farm Machinery, 1910–1940.*

(1910–14 or 1913 = 100. Adapted from Figure 8 in *Farmers, Farm Prices, and Inflation,* published by the Office of the Secretary of Agriculture.)

level by 1921, which level they maintained until local governmental units were forced by dire necessity to curtail their expenses in the early 30's. The expansion of taxes was due to more than wage increases. During the war, local governments committed themselves to considerably enlarged programs of road building, building construction, and the like, the bonds being written on the basis of the high prices of the war years.

Next in order of seriousness was the effect of the war in producing a boom in farm real estate values, which came to a sharp peak in 1920. This boom, as is apparent in Chart III, took some time to get under way. Farm real estate values had been rising since before 1910. They began rising more rapidly after 1915, but did not take their sharp upward surge until the war itself was nearly over. The buyers of land apparently doubted greatly whether the new

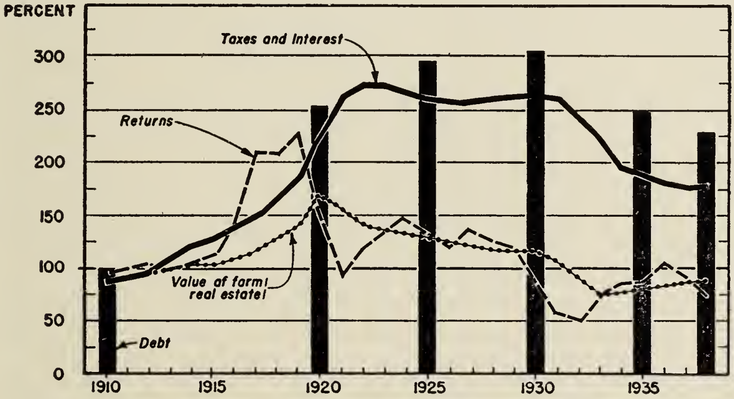

CHART III. *Taxes and Interest, Mortgage Debt, Returns from 10 Leading Crops, and Value of Farm Real Estate, per Acre, 1910–38.*

(Adapted from Figure 9 in *Farmers, Farm Prices, and Inflation*, published by the Office of the Secretary of Agriculture.)

war prices of the early war years had come to stay and expected a sharp break in them after the Armistice. When this break proved to be slight, and was followed by vigorous secondary inflation, they apparently lost their heads and started a wild scramble for land in the Corn Belt, in the tobacco and cotton regions, and in many other parts of the United States.

The subsidence from the peak after 1920 was slower than the break upward in 1919, but continued until the end of the decade, each year a little less. To understand the real significance of this continuing decline during the 20's, one must bear in mind that industrial stock prices were rising rapidly during the latter half of this period. It was this stark contrast that gave strongest support to the prevailing opinion among farm people and those who did business with them that agriculture was still in a depressed condition in 1929 when the new depression arrived. There has been only part recovery since, and land values today are still below the level of 1910–14.

The movement in land values in and out of the depression differed greatly by states. On the upswing, the extent of the war gains was dependent on the amount of rise in farm prices and increase in volume of sales of the principal products. In general the value of cotton and tobacco land increased the most (in percentage terms), of corn-and-hog land next, of dairy farming land next. Increases were least in the Northeast and in the Great Plains. The wheat land increases were spotted, reflecting the extent of severe drought in some sections in the early 20's, and also damage from black stem rust disease.

The recovery since 1933 has been uneven, as is apparent in the accompanying table in such comparisons as North Carolina and South Carolina, Maine and Connecticut, California and Oregon, and South Dakota and Minnesota. It will be noted that California, Connecticut, and Florida were well above their pre-war levels in 1939. This reflects the influence of the spread of urban culture into rural areas, in the way of summer houses and country estates. In some of the Great Plains territory, land values in 1939 were at scarcely half their pre-war level. Wheat land values have recovered very little anywhere.

*Index Numbers of Farm Real Estate Values.*

| States | 1920 | 1929 | 1933 | 1939 | 1942 |
|---|---|---|---|---|---|
| Iowa | 213 | 116 | 58 | 74 | 80 |
| Indiana | 161 | 83 | 53 | 73 | 88 |
| South Dakota | 181 | 95 | 55 | 48 | 42 |
| Minnesota | 213 | 138 | 79 | 86 | 90 |
| Pennsylvania | 140 | 110 | 78 | 88 | 95 |
| Maine | 142 | 122 | 94 | 94 | 97 |
| Kentucky | 200 | 129 | 80 | 107 | 129 |
| Georgia | 217 | 101 | 57 | 80 | 93 |
| Alabama | 177 | 143 | 88 | 122 | 129 |
| North Carolina | 223 | 165 | 86 | 138 | 150 |
| South Carolina | 230 | 110 | 57 | 88 | 103 |
| Colorado | 141 | 82 | 54 | 61 | 69 |
| Oregon | 130 | 106 | 72 | 82 | 91 |
| California | 167 | 160 | 109 | 121 | 128 |
| Florida | 178 | 174 | 121 | 131 | 140 |
| Connecticut | 137 | 139 | 124 | 124 | 133 |

Chart III also shows a rise in mortgage debt until 1930, and decline since. At the very much lower level of land values that now prevails, the principal of mortgage debts should be greatly reduced, even though the ratio of debt to value has considerably increased. That this did not occur immediately with the decline of land values after 1920, is due first to the fact that the mortgages attached to farms in the early 20's had in many places been written earlier when land values were at boom levels. Also much short-term indebtedness arising in the early 20's was converted to mortgage debt subsequently. When it became possible to buy farms at lower figures, a large proportion of the purchasers had accumulated only small savings to use as down payments. Farmers' sons and tenants, who are the backbone of the land market in most areas, had to buy on a shoestring if they bought at all in altogether too many cases. And once having purchased under a heavy mortgage, they were able to make only small reductions in principal out of annual savings.

An important factor in the stagnant land market from the early 20's on was the large proportion of farms held under precarious ownership. Much of the time many more owners would have been forced off their farms except for the fact that farms already taken over by creditors constantly weakened the land market and threatened the mortgage holders with having to sell their farms for less than the mortgages. Data on forced sales of farms have been collected only since 1926. The peak of the immediate postwar forced sale movement occurred in 1923 and 1924. From 1926 to 1930, around 20 farms in each thousand in the United States went through forced sale each year. This was about one-tenth of the farms in five years. By 1933 the forced sale frequency had increased to 54 per thousand. The accompanying table shows how much more acute the situation was in some states than in others.

* * * * *

The particular farmers who own farms under mortgages at any one time are naturally disposed to look upon a rise in prices of farm products, if it can be faster than the prices of things which they buy, as a great boon to them. It enables them to pay off mortgage debts contracted earlier in

*Number of Farms per Thousand Changing Ownership through Forced Sales*

| States | Average 1926–28 | Average 1932–33 |
|---|---|---|
| Iowa | 30 | 72 |
| Indiana | 21 | 43 |
| South Dakota | 63 | 85 |
| Minnesota | 31 | 59 |
| Pennsylvania | 8 | 20 |
| Maine | 16 | 27 |
| Kentucky | 22 | 44 |
| Georgia | 29 | 43 |
| Alabama | 14 | 49 |
| North Carolina | 19 | 77 |
| South Carolina | 31 | 57 |
| Colorado | 47 | 56 |
| Oregon | 22 | 36 |
| California | 16 | 43 |
| Florida | 18 | 32 |
| Connecticut | 9 | 10 |

cheaper dollars. There is no use denying that a development of this sort is very attractive from their point of view. However, it would be very interesting to know what percentage of farmers with mortgage debts really take advantage of such a situation to improve their financial condition. Apparently for every one who does, there are more who do the contrary. The total effect of the inflation of the last war on all the farmers was to leave more of them with debts than before. The man who sells his farm at the peak of the inflation is likely to find himself investing his funds in some other property, which presently depreciates in value as much or more than if he had kept his investment in land. The man who takes his savings and buys a farm at the inflated values is injured very greatly. The chosen few who are able to manage their affairs so as to pay off all their mortgage debt while the inflation is still on, can look forward with rejoicing to a prospect of an inflationary rise in land values. But if history repeats itself, their numbers will be relatively few, and the aggregate effect will be one of great misfortune for the farming population.

* * * * *

How much of the further decline in land values after 1930 is still to be described as deflation after the last war? The usual statement in the history books is that farm land values subside for a period of from twenty to thirty years after a big war. There are still a good many farm economists in this country who look upon the whole depression of the 30's as merely a delayed time bomb—delayed by the false prosperity of the 20's. On the other hand, Dr. Charles Hardy has said that the depression of the 30's was more due to the mistakes of the 20's than to the war itself.

The truth is probably somewhere between these two positions. One can answer Dr. Hardy readily by saying that except for the war, these particular mistakes would not have been made. They are all part of the aftermath—not a necessary part; but a probable one under the conditions then prevailing, and the ideas about fiscal policy that men then had.

Given such a stretching out of the war effects, land values are likely to reflect them longer than prices and most other economic phenomena.

* * * * *

On March 1, 1942, the index of farm real estate values stood at 91, compared with 100 in 1912–14. The rise in the past year has been 5 points, the same as in 1915–16. The bottom in the recent depression was 73 in 1933. From then until 1937 the recovery was rapid—3 points a year; but from 1937 to 1941, no improvement whatever occurred.

The gains by years after 1916 were 9, 12, 11 and 30 points. Does the 5-point gain in 1941–42 augur a similar movement in the present war? There can be little doubt of this if farm prices rise farther. Even if they are held at present levels, land values will continue to rise for several years unless taxes on farm property and farm incomes are unexpectedly severe.

The variations in amounts of increase in 1941–42 are significant. The sharpest rise has been in the eastern Corn Belt and the states just south of it—Kentucky and Tennessee. The least rise has been in the Northeast. Expansion of war industry appears to have been an important factor in such states as Michigan, Ohio, Indiana and Illinois.

Even more pertinent are the variations in amount of change since the depression. At one extreme are South Carolina, North Carolina and Georgia with index numbers now 81, 74 and 63 points respectively above those of 1933, and North Dakota, South Dakota and Nebraska with index numbers from 15 to 23 points *below* those of 1933. By geographic divisions, the New England states have gained least, the West North Central states next, and the southern and the eastern Corn Belt states most.

A cursory examination of these gains at once suggests a close relationship of the gains to the amount of federal subsidy received. The total AAA payments per acre in 1934–41 range from less than 1 percent of 1940 acre farm real estate values in some New England states to over 20 percent of them in 6 southern states. For the bulk of them they are around 5 to 10 percent of the acre farm real estate values. As a general average, for every difference of 1 percent in the ratio of AAA payments to farm real estate values, there has been a 4 percent increase in farm real estate gains since 1933. It seems clear that AAA subsidies are already being capitalized in higher land values—with all the bad and good effects associated therewith.

By no means are all the variations in amounts of gain in land values explained by AAA payments. For the 40 of the states for which index numbers have been constructed, one can relate increases in prices received to gains in land values. The range in price increase is wide, from 24 percent in Maine to 117 in Iowa; but the correlation with land value increases is very irregular. The AAA payments seem roughly to have been least where the price increases have been least; and contrariwise. It is obvious from the data that prices received do not alone account for differences in prosperity. One needs expense and volume data also.

Neither of these factors explains the decline of land values in Nebraska and the Dakotas since 1933. The 1934–41 AAA payments average 8 percent of the farm real estate values in these states, and prices received have increased an average of 94 percent. The missing link is output per acre.

From now on, the increase in land values that occur in the various states will be related mainly to price factors. The AAA payments will not increase, and have already been capitalized.

## CHAPTER XVIII

## *KEEPING INFLATION UNDER REIN*

It follows from the preceding chapter that the problem of keeping inflation under control has two phases so far as agriculture is concerned: first, that of keeping the price level in line, and second that of holding land values down to a safe level. The second is greatly dependent upon the first, but not wholly so. If the general price level were held where it is, even if prices of farm products rose not one point more, there still would be a good choice of a runaway land market if nothing is done to prevent it. Logically, it is apparent, the general problem of price level control should be considered first.

Methods employed in price level control depend upon the general nature and objectives of the price policy—for example, upon how much price control is wanted, upon whether prices are to be held rigidly in line or allowed to advance gradually. The simplest policy of all is that of allowing virtually no price increase at all, of saying to the producers of the different products and to the employee groups in all industries, that an increase in the total volume of national production and accompanying national real income is going to provide the rank and file of producers and workers with a sizable increase in real income and earnings, and that it is in this form that they must accept the economic benefits which they are now expecting to derive from the war efforts; to point out to them that there can be no general real increase in income which is any greater than this and all that happens if prices and wages are allowed to rise also is that they pay enough more for what they buy out of their incomes to offset the higher prices for what they sell. This was the policy recommended by the writer in his address before the National Farm Institute at Des Moines, Iowa, in February 1940. "The really safe program for agriculture and industry alike in the next few years is therefore one of keeping prices and wages as near as possible at present levels and letting the gains come from an increasing volume of output and full employment."

The difficulty with such a program is that the prices of some of the products needed particularly in the war effort may need to rise because of an increase in costs due to production under less favorable conditions. The mere speed of production called for in itself becomes an additional cost factor. If these war goods increase in price, they will raise the general price level appreciably, probably enough to destroy the appearance of adherence to the very policy itself. One possible offset for this is to lower proportionately the prices of products that are needed less because of the war effort. This, however, meets with stern opposition from the groups affected, and is in fact difficult to arrange without putting them at a disadvantage. A more promising offset is to lower the price of war materials produced under contract whenever and wherever increases in volume or improvements in technique have the effect of lowering the unit costs. The possibilities of this are beginning to be explored in the present program of reviewing the outstanding war contracts. The general drift is of course the other way; as more output is called for, more of it is paid for at time and a half rates, and the labor employed is less skilled.

This points to the second major difficulty, namely, that the differential pattern of price increases resulting will produce an uneven structure of gains from the war effort. Those who are fortunate enough to be in lines of production needing expansion or where increased output and the like lowers costs, will benefit considerably, while others will benefit very little or perhaps even lose. However, these inequities can be dealt with effectively, so far as business enterprises are concerned, by a vigorous system of excess profits taxation. Whether Congress will impose one that is drastic enough is another question. Apparently it is much more likely to rise to this particular need in its new tax legislation than to most others.

There will still remain the inequities between different groups of workers arising from varying demands for their services, ranging all the way from those who are working 15 or more overtime hours a week at up-graded jobs, to those whose skilled specialized services in certain civilian lines of manufacture are not wanted at all. The obvious way of meeting this type of inequity is to tax heavily all incomes, even of workingmen, above a minimum level deemed adequate for healthful living. Congress is apparently now in little mood for this—too many votes are involved.

How is agriculture likely to fare under such a policy? As one of the industries producing essential raw materials, agriculture in general will gain from an increase in volume. The expansion will not be as great as in some other raw material lines—metals, for example—but will be enough to help very considerably in the current year and those ahead. The United States is going to be in a position of having to supply an increasing share of the food of the Allied Nations. If all prices are kept in line, then its costs for supplies and equipment will not rise. The large increases in prices and income that have already occurred since 1939—

56 percent in prices and 52 percent in real income [1]—will enable agriculture generally to meet the rising cost of farm labor and still leave a sizable margin of gain for the farm operator.

Needless to state, the gains will not be equal for all branches of agriculture. The expansion of output required varies greatly in a war situation, especially in a war situation that includes such a wide range of effects as shutting off of supplies of vegetable oil from the East Indies and Africa to curtailment of exports of wheat, cotton and fresh fruits. The gains can be equalized in considerable part, however, by enlarging the purchases of much needed products in the areas that are losing their export outlets; for example, by buying more peanut oil in the cotton states.

Most agricultural leaders agree that wages of farm labor should be rising at this time and that agricultural labor should share in due proportion in the net gain to agriculture as a whole. In the application of the principle, some of them consider the competitive levels being set by war industry in near-by centers as altogether unreasonable. Others say that these levels are appropriate, after due allowance is given to differences in the costs of equally good living on the farm and in industrial locations, and that farm prices must be allowed to rise to a point that farmers can afford to pay these wages. They do not think that parity prices are everywhere high enough for this. This can easily be true. But any claim to this effect must be explored carefully before the claim is granted. For example, it may be found that the production in question may be organized upon a more labor-intensive basis than can be afforded in wartime. Though it finally be conceded that higher prices are needed,

[1] See pp. 332 and 337 in Chapter XXII.

direct subsidy may be a better form of aid than higher prices.

The case of agricultural wages which may not yet have risen as much as needed to retain a needed labor force on farms may serve as a general example of this as a difficulty in any proposal to freeze wages as well as prices at points where they are now. Further expansions of war effort in some lines may possibly call for wage offers above levels of those now being paid. Additional labor needed for such production must come out of non-essential civilian industry and trade, and directly or indirectly out of the female population. However, it would seem that bidding up wages to induce shifts from non-essential lines and attract woman labor, should be only a third or last resort. The first procedure should be vigorously to recruit such labor at the wages now being paid; the second, to enroll it in a national wartime labor force.

* * * * *

The second major alternative in price policy was described by the writer at the Iowa Farm Institute as follows: "Next to this in safety, and perhaps more feasible, is a program of very gradual increase in prices and wages—wages only as soon as the unemployed, including the million of young people back on the farms waiting for city jobs, have real promise of being absorbed. If such a program can be followed, there need be no painful readjustment when the war is over. Some contraction in volume of output will have to come, but not much in prices."

This alternative does not seem as feasible now as in February 1940. It raises the question at once of how far to let a price level advance before checking it. Those who favored this policy in the first year or so of the present war never were very clear on this point. No doubt most of them wanted to see a genuine and sustained rise in the price level. This would have encouraged new capital investment and new employment and increased the national income to the 80 billions that President Roosevelt was talking about in those days. But they wanted to see the rise to this new level take place gradually and never get out of hand.

Is such an ideal development possible, especially with much of the machinery of control still in the hands of Congress, or otherwise tied up with the fortunes of politics? It should be clear from the manner in which Congress handled the Price Control Act that it then really favored this moderate program. In general, it was liked by industry and trade. Under it, the economy could function more nearly along its normal lines with prices of products being determined more nearly "automatically."

Such a price program in a war period means a constant readjustment of prices and wages, not just in general but for each product and each separate industry. At any given time, there will always be a large number of producers of war goods asking for higher prices because wages and other costs have risen. Likewise at any given time a considerable group of wage earners will be insisting that the cost of living has risen. Trade margins will rise because of increasing wages and rents, and farmers will be demanding higher prices because the index number of prices received will be steadily mounting. And at any time the whole moving structure of prices, wages and rents may suddenly lose its perspective and become like a cubist painting of a nude ascending and descending the stairs at the same time.

From the standpoint of the general success of such a program, special consideration must be given to the circumstance that prices of farm products at such times are likely to be under greater pressure to rise than those of most other groups and that rises in them contribute powerfully to rises in the cost of living, which becomes the principal argument of wage rises.

Some recent discussion of the subject seems completely to have forgotten about the sharp response of agricultural prices to increases in demand. While it is difficult to measure this statistically, the general truth of it is demonstrated in any period of expanding enterprise. An analysis in Chapter XVI on The Farmer's Interest in Wages deals with the point pretty conclusively.

The case to the contrary may be best illustrated by the speculation of two Brookings Institution writers not long since, from which the following is extracted:[1]

> "Government policy with respect to agriculture has, however, been primarily responsible for the great rise in raw material prices. In the absence of the government's agricultural program, agricultural prices would not have shown any extensive general rise. Except in a few lines, increased foreign demands had no effect. In aggregate terms exports were much smaller than normal. In the fiscal year 1940–41 exports of agricultural products were only about half as large as the average in the five-year period 1936–41. Total exports, including Lease-Lend shipments, are expected to amount to only 8 to 10 percent of our total agricultural production. Meanwhile, increasing domestic demands have not in most cases been great enough to absorb the large accumulated surpluses and produce shortages."

The argument advanced in support of the last sentence cited runs in these terms: The demand of the ultimate consumer in the retail market is not an *active* force in producing price rises. It is only a "permissive factor." "Except in cases of acute shortage the consuming public does little active bidding up of prices."

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[1] Meyer Jacobstein and Harold G. Moulton, *Effects of the Defense Program on Prices, Wages, and Profits*, September, 1941.

Such a statement suggests complete unfamiliarity with the operation of *derived* demand. It is true that the consumer himself does not actually bid in the wholesale market; the jobber or the retailer does it for him. It is the business of these middlemen to keep in touch with consumer buying and to note instantly any tendency for it to expand. On the whole, they do a very good job of this, and in consequence "acute shortage" very seldom arises in the actual retail market. But the effect of the increased buying power of the actual consumer appears almost immediately in the wholesale market and causes prices to rise there. Extremely informative to watch from this point of view is the manner in which the wholesale price of butter reflects very promptly any slight change either way in the flow of butter out of retail stores and in and out of storage.

If in more normal times the prices of farm products rise promptly with a slight increase in buying power, one can expect pronounced effects with the kind of expansion that occurs in wartime. In the present war situation there is the further circumstance that the total supply of the whole group of Allied Nations is short, and shipment out of Africa and the East is extremely hazardous. All of the rise in prices of farm products that has occurred since 1939 could therefore be accounted for solely in terms of a shifting of demand. Comparison of prices in the United States and other countries, however, indicates that our loan and related programs for wheat and cotton have contributed some further stimulus to increases in their prices. It is also probable that hog prices have been a little higher some of the time because of the holding back of corn that might otherwise have been fed. As events have proved, hog prices may not average any higher over the two years than they would have with no "granary" in the program.

*From now on out for most farm products, the problem is not going to be one of prices held at parity level or near it by means of loans, but instead that of keeping them from rising above the parity level. The nation is going to be confronted with the situation, unless effective controls can be devised, of having the price of one farm product after another rise too far for the good of the national cause.*

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Assuming that such a program can be engineered successfully while the war is on, we will still be left at the end with a level of prices considerably above where we started in 1940. What shall we do then? Shall we proceed, as in former post-war periods, to let prices slide, possibly using control measures of the sort to which we have become accustomed to keep the descent from being too abrupt? If so, then agriculture and the rest of the nation will repeat the post-war history of the last war, except in milder form. In place of a decline in land values of 54 percent in 13 years, we may have instead 25 percent in 10 years.

Or our fiscal authorities could, instead, attempt to hold prices at the new level which had been attained. Could they do it if they tried? Some of our professors of money and credit look upon this as a relatively easy assignment. Nevertheless it would be wise for us not to forget that even as recently as 1937 to 1939, the index number of prices of farm products declined 28 points in two years. It has been stated that this need not have happened had the fiscal authorities used the necessary control methods. A good reason why they did not use them was that they did not have authority to do so. There is still a Congress in the United States.

Should an attempt to maintain prices at the new level prove successful, we will have experienced, as a result of the war, a permanent depreciation of the dollar. This will mean that the value of all savings, including all the insurance in force, will have been written down by this much. There will be the further problem of readjustment of salary schedules.

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At this point it may be worth while to make a fleeting reference to still a third possible general price policy—one favored by a group that has now become very small. They would make little or no attempt at price control, but would let inflation run pretty much its full course, and then attempt to hold prices at the new level subsequently. Assumedly they have in mind the use of such drastic devices as another devaluation of the dollar at a well-chosen moment, such as while some great international conference is under way.

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Once a policy has been chosen of holding all prices and wages more or less, or rigidly, in line, the question arises as to methods to be used in effectuating it. There is not space here for any elaborate discussion of such methods. In brief, five courses of action are generally agreed upon as necessary, each to supplement the other. These are: (1) expansion of production, (2) increased taxes, (3) larger savings, (4) price fixing, and (5) rationing.

The logic of expansion of production as a means of checking inflation is easily comprehended. If it were possible to step up production of all products as fast as the demand grew, no prices would rise. In so far as the new military needs of the defense period were met out of fuller use of existing plants, materials and labor, without reducing civilian consumption, they should have caused no rise in the price level. The evidence seems to be that the first 34 percent increase in defense-period production caused only a 8 percent rise in wholesale prices. The Administration has made use of several methods to facilitate expansion of war output, including building new plants, quick loans and differential prices. Both President Roosevelt and Secretary Wickard, as we have noted, have talked freely about expanding farm output as a way of keeping farm prices from rising undesirably.

The reason for increase in taxes and savings is that whenever consumers have large earnings which they are free to spend, they will go out into the markets and try to buy more consumer goods and services. With the supply of these short because of priorities, prices are sure to be bid up. There will really appear the "acute shortage" that the Brooklings pamphlet writes about. These sharp demands will be reflected back into the wholesale market and thence back into the market for raw materials.

The most recent forecasts for 1942 given out by OPA are as follows, expressed in per capita terms: Income, $879; taxes at present rates, plus normal savings, $283; available consumer goods and services, $518; surplus, $128. In his message to Congress Mr. Roosevelt is supposed to have asked for a taxation and savings program that will use up this $128. This "inflation gap" of $128 per person, or $17,000,000,000, if not absorbed in increased taxes and savings, will go into competitive buying of the $69,000,000,000 of consumers' goods and services predicted as available, and bid them up till they are priced upward toward the $17,000,000,000 more. With an "inflation gap" of this size in the national economy, it will be extremely difficult to enforce ceilings. The retail market is so broad and so detailed that no army of enforcement officers that we are likely to create will be able to do the necessary policing.

Several ways of getting the increase in saving are available. Voluntary bond buying is the one being promoted most. The President in his message to Congress also asked for less installment buying and a more rapid rate of payment on mortgages. How effective the latter is depends in part upon what the creditors do with their increased collections. If these voluntary methods do not work, then compulsory methods can be tried—such as payment of salaries and wages and dividends partly in war bonds, or collecting heavier taxes later to be refunded in part in government bonds.

The voluntary savings program until the recent campaign was of negligible importance. The campaign must be looked upon still as only an experiment.

Not only do the tax measures now in committee fail to reach the classes of the population that have the new spending power,[1] but they are altogether too slow in their action. The measures that will be enacted some time late in the summer are probably about what should have been enacted a year ago. Professor Albert Hart of Iowa State College has suggested to Congress that there be superposed on the tax measures now being considered a special "national defense tax" that will go into effect as early as July 1, 1942, while the current income is being earned. These collections will be in the nature of advances, and adjustments made plus or minus at the end of the year. He wants these taxes to reach the spending power of families in the $2000-to-

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[1] Some recent discussion in committee has indicated a trend toward taxing lower income brackets.

$10,000 range, with lower exemptions and a higher rate of collection than at present on small incomes. He is concerned over the effect on prices of the large volume of new spending power now being obtained by the great mass of well-paid and now fully employed skilled worker classes.

Rationing has its ostensibly major use in a wartime economy as a device for preserving scarce commodities for essential uses, and also keeping those who have the most purchasing power from buying scarce goods away from their weaker fellow citizens. Priorities and allocations are of course only forms of rationing. Applied to raw materials, these came into the war program early.

Almost any kind of rationing program is bound to have its effect on prices. If drastic and effective, it may restrict the use of a product to the point where no free supply is available for competitive buying. Accordingly, rationing is likely to be called upon also to serve as an aid to price control. Just now, the tendency is to extend it to a wide list of staple materials. Programs as extreme as rationing total buying power, as a substitute for taxation, are being discussed. The "point" rationing system is intermediate in intensity and coverage. Under this, each person is assigned a certain number of points which he is allowed to use with purchases of food, clothing and other essentials, and each article in the rationed list has point values assigned to it. Thus developed, the point system may be an effective device toward keeping the cost of living from rising.

Direct price fixing itself can be highly selective, as under the OPA program until recently, or it can be virtually complete, or it can be complete for, or except for, certain classes of products, like the OPA program now. The tendency in operation is to limit its application to staples at first, and to bring in others as buying shifts to them and their prices soar.

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The concensus of judgment of the price specialists is that neither direct price control alone, nor price plus wage freezing, nor these plus rationing, will prevent inflation in a really serious war period; that in addition taxes and savings must be stepped up to draw off the surplus buying power. But not all of these need or should be applied at once at the outset. The timing of these several controls is an important part of the management of the war. One who undertakes to analyze this phase of the war effort therefore has more of an assignment than merely to evaluate the several price-control devices as such.

It is now evident that the Administration was not much interested in keeping prices from rising while the present war was in its early European phases. The Office of Price Administration was not set up until the spring of 1941. The prevailing point of view among the select inner circle of fiscal policy advisers, especially outside of the Treasury Department proper, seems to have been that although prices would rise somewhat, there could be no real inflation so long as the nation had large reserves of unutilized labor, plant and other resources.

This was a correct theory only if the idle labor and resources could move into the new military types of uses with great freedom and if few bottlenecks developed. With new production needing to expand in great strides as in modern wartime, no economy to be found anywhere on earth has the required degree of freedom. The outstanding fact about our whole experience thus far is that the idle labor and resources did not move into the new uses as quickly and smoothly as needed. Even today we have much unemployment, and at the same time, great need for expansion in many lines. The transition to the war production program has thus far created idleness of civilian goods, plants, workers, and distribution facilities at least half as rapidly as it has expanded new types of production.

Consequently prices of many products rose markedly. The Brookings Institution has published a list of price increases between mid-1939 and mid-1941.[1] At the top stand shellac, manganese ore, and burlap—three imported articles made scarce by shipping hazards. Then came cotton, wool, rubber, and lumber, and other raw materials needed in much greater volume than before. Prices of steel scrap rose 35 percent in Chicago. Other metals whose prices rose a good bit were zinc, lead and copper. By August 1941 some of these prices were already feeling the restraints of the OPA controls.

Prices of farm products rose along with those of other raw materials. The average for all raw materials in this period was 32 percent, for semi-manufactured articles, 20 percent, and for manufactured products, 17 percent. Chart I shows the price advances in this war, in parallel with those in the last war, under three heads: all commodities, farm products, and non-agricultural products. The pattern of change is very similar in the two wars until the end of 1940. It is clear that the OPA controls have really produced desirable effects in the case of non-agricultural products. Broken down by groups, the price increases range from around 8 percent for metals and metal products, to around 15 percent for chemicals and allied products, and to around 30 percent for hides and leathers and textile products.

The all-commodity price index rose 19 points within the

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[1] *Effects of the Defense Program on Prices, Wages, and Profits*, September, 1941.

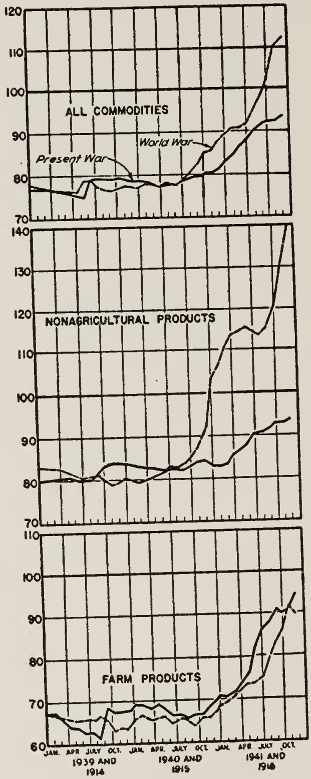

CHART I. *Price Increases in the Early Months of World War I and World War II by Three Groups of Products*

(Adapted from Figure 4 in *Farmers, Farm Prices, and Inflation*, published by the Office of the Secretary of Agriculture. The non-agricultural series is taken from a BLS bulletin, *Index Numbers of Wholesale Prices on a Pre-War Base, 1890–1927*.)

year 1941, and by April 4, 1942, had risen 6 points more. The corresponding increases for farm products were 39 and 8.[1] The cost-of-living index rose 9 points in 1941, and had risen 3 points more by February. In general, the increases for the products whose ceilings had been set formally by OPA have been very small. It has been necessary to allow increases in several cases because of changes in the war program. For example, the price at which the whole 1941 Cuban raw sugar crop was taken over called for an amendment upward in wholesale sugar prices.

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There has been much shifting of position with respect to inflation policy since early in the war. The organization of the OPA in the spring of 1941 probably was not so much for the purpose of preventing inflation as it was of halting a runaway market for groups of highly essential war materials, which threatened not only to add greatly to the cost of the war, but even to put some of the materials entirely out of the reach of war industry as such. Price control was introduced as a supplement to priorities and allocations. This is how Mr. Henderson came to function in his twofold capacity on OPM and OPACS, and now on WPB and OPA.

It is possible to rationalize the early program of OPA now and say that in the early stages of the war effort, selective price fixing was all that was needed, and that an over-all price freeze such as Mr. Baruch wanted would have introduced restraints upon desirable readjustments that have come about since by less arduous means. The shift to much fuller coverage in the recent announcement can be similarly rationalized as needed at this later stage, and particularly as made necessary by the stepping up of the war production program since war was declared. Another line of rationalization takes the form of saying that the selective method presumed that taxes and savings would be increased greatly, and the failure of the Administration to provide this made necessary an increasing resort to price-fixing and rationing.

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[1] These two series are on the 1910–14 base. The cost-of-living index is upon the 1935–39 base.

Although these rationalizations are not without foundation in fact, it is probably nearer the truth to say that even Mr. Henderson did not fully accept a need for vigorous price control at the start, nor all last summer and fall, and *possibly has not accepted it fully even yet.* Much evidence points to the conclusion that his major concern last summer and fall was with getting an act passed that would give his organization definite legal status and his program of selective price fixing a clear sanction.

He apparently was not much concerned until recently over the rising cost of living. Not only did he in July accept parity prices for farm products, but also 110 percent of them. His assistant administrator, Dr. Galbraith, had been a vigorous exponent of parity prices for the farmers while serving with Mr. Chester Davis on the old National Defense Commission. The shift of the Farm Bloc to 110 percent of parity while the price bill was being drafted at once stirred up opposition in the OPA staff; but apparently little or none from its chief. Not until after the recess of Congress and the Senate began hearings on the price bill did Mr. Henderson seem to sense the import of 110 percent of parity.

Again one can rationalize and say that in not rejecting 110 percent of parity earlier, he was only accepting the argument that this much leeway was needed to insure an average of 100 percent of parity, and that his apparent shift of position before the Senate committee was really not a shift—that all he had agreed to at any time was *average* parity. Many did accept this argument at the time, even some members of technical staffs of the Department of Agriculture. The manuscript of this book at one stage contained several pages of analysis of the point. They are no longer needed. Events have furnished the answer.

If Mr. Henderson was slower than his staff in realizing the need of keeping the cost of living from rising, and hence food and clothing prices, President Roosevelt appears to have been slower than Mr. Henderson. It is true that in his message to Congress on July 30, he did recommend the adoption of measures to deal with the threat of inflation, and that in January he made a stronger statement. But the Congressmen were not much interested. Most of them really wanted prices to rise a good bit more, but they did not want to be blamed for it. So they kicked Mr. Henderson's bill around all through the summer, fall and winter, and no vigorous executive effort was made to stop it. The bill that was passed on January 30th would have been vetoed by a president much concerned over the rising cost of living. Mr. Henderson surely would have urged a veto had he fully understood the situation. Both the President and he strongly suggested by their words and action at the time that they were still more interested in some kind of an enabling act than they were in vigorous price and wage control itself.

One would like to interpret the recent demand of the President for repeal of the 110 percent ceiling, plus the other items in his seven-point program, as proof of his final acceptance of a need for preventing further price rises. One would similarly like to accept the growing strength of Mr. Henderson's utterances on wage increases as proof that he has finally become solidly set against price and wage increases. But it takes wishful thinking to interpret in this way such language as "stabilization" of prices and "stabilization" of wages. The practical-minded public has for some time come to understand the term stabilization of price to mean stabilization upon a higher level than prevails, which means in effect a succession of levels each a little higher than the last. And this seems to be the drift of current interpretation of President Roosevelt's message.

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The theory of action upon which *The General Maximum Price Regulation* of April 28 is based, represents a definite departure from previous control efforts and needs some explanation. Before then, the price controls had been exercised at the wholesale level. This left retail prices free to rise as they would. In the usual manner, they lagged behind wholesale prices because merchants were still selling out of old stocks. In March they were about 4 percent behind wholesale prices. This represented a lag, at the ratio of recent advances, of around 2 to 3 months. If only wholesale prices had been frozen on April 28th, retail prices and the cost of living would still have risen at least 4 percent from these causes alone. This was enough to furnish a good argument for acceptance of important pending wage increases.

Hence the decision was to fix retail prices as of March, and, to use the Canadian phrase for it, "roll back the squeeze." This meant that if the retailer was to get his usual margin on goods handled from then on, he would have to insist on buying replacements to his stock at 4 percent lower prices. The wholesaler in turn would have to do the same with the manufacturer, and the manufacturer with his purchases of raw materials. This procedure was adopted with the intention of stopping "dead in their tracks" any further rises in retail prices and the cost of living.

It was expected that this rolling back could not take place generally on goods bought between March and April 28, and that this would cause the retailers a little loss; but it was believed that they could stand this much of a sacrifice.

A further assumption, and a reasonable one, has been that retailers and wholesalers and manufacturers can easily find ways of reducing costs that will absorb the 4 percent lag in margins. A myriad of luxury-type services and frills of various kinds added to commodities, can readily be dispensed with in wartime. An outstanding example of this is the excessive multiplication of brands and packages.

OPA has also made it known that it intends to grant subsidies in a very limited number of cases in which it can be demonstrated that costs have necessarily risen. It does not offer this as a way of avoiding the "rolling back of the squeeze." The subsidies are intended for increases in costs due to fundamental changes that have already occurred or may occur. Thus if OPA were to allow a rise in price of some imported raw material, OPA might subsidize the manufacturers using it. Or if the shortage of rubber were to increase some transportation costs it might help out the middleman agency who pays the transportation bills. There will be a good many such cost increases all told.

Merchants will no doubt argue that they need higher margins to make up for the loss in volume of sales resulting from a decline in production of perhaps ten billion dollars' worth of consumer goods. The general answer is that there will be no decline in output of essential consumer and producer goods except where lack of rubber and few other scarce war materials make this unavoidable. Most of the reduction will be in automobiles, gasoline, and few other lines. Workers in the retail fields particularly affected—automobile salesmen, for example—will be forced to find other occupations anyway. Stores handling general lines of groceries, meats, clothing, drug store items and the like will not sell the same proportion of various lines of goods, but their total sales per customer will hold well up to prewar levels.

If this is not true in some particular lines, surely good war policy would not be to subsidize the merchants by price increases or otherwise, so that they can make their usual annual net return on half or two-thirds as much business as before. Employers and small-scale enterprisers in these lines ought to find other jobs; and they should be helped to do so.

Several serious dangers confront this new control program. The first arises from the fact that a third of the food items and enough other items are exempted from retail price control so that the cost of living will rise after all.

The second is that the War Labor Board will not hold wages rigidly in line, and even if it does, a large majority of the cases will be settled upward between employer and employee without any consultation with the War Labor Board. These wage increases will make price increases difficult to hold in line.

Perhaps still more important is the large volume of buying by the military and Lend-Lease authorities, which is tied in with the price freeze only in a very loose way. The escalator clause under which military buying is done tends to permit a pyramiding of wages, costs and prices. With wages and prices rising on a tremendous volume of war output, it will be difficult to hold civilian prices in line.

It is agreed that a further extension of rationing will be needed to support the general freeze; and rationing is unavoidably either cumbersome, or capricious and inequitable.

Confronted by those developments, OPA may do either of two things that will be bad for the future of its program —one is to rule so inflexibly on the thousands of situations that arise as to create a general opinion that it is unreasonable and capricious; and the other, to grant so many exceptions and subsidies that the whole effort will break down.

To begin with, the index of cost of living is likely to rise appreciably between March and May. It may be said that this occurred in March in anticipation of a general freeze. There will be considerable truth in such a statement. This will not be an auspicious start for the program.

What is needed most of all to make the new price order effective is a vigorous and prompt program of taxation that will reach all incomes above the $2000 level. Offsets for bond purchases would not weaken such a program provided the bonds were mostly not redeemable shortly. Congress offers little promise of providing such support, at least in time to save the price situation. Standing out against a program of vigorous taxation and savings are groups, in Congress and out, who aver that such heavy withdrawals from current consumer spending will disturb the economy too seriously. Back in 1940 some of these same people were insisting that current proposals were in danger of starving out the new revival of consumer buying that was so much needed as a basis for general business recovery.[1]

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[1] There is a theoretically possible danger of over-taxation. If there was chance of acceptance in full of a proposal such as Professor Hart's, safeguards against such over-taxing would be needed. Professor Hart has outlined these fully in an article in the *American Economic Review*, March 1942, p. 87.

In the last war years two periods of price inflation occurred, the first an eight-month stretch beginning in September 1917, and the second a year after the war itself was over. It is interesting that the land value movement had these same two spurts. This strongly suggests that land values will tend to get out of hand rather promptly this time also if general price inflation gets under way.

Contrariwise, any effective curb on prices of farm products will be reflected closely in the movement of land values. But it will not be enough to prevent a further rise above the March 1942 levels. The influences that produced the 5-point rise in the last twelve months may cause an even larger rise before next March. The increase of a half in real net farm incomes since 1939 has only in small measure been capitalized in the 5-point increase.

Unfortunately no direct attack on control of land value inflation is possible. Neither can rationing be applied to it. The first approach suggested is usually by way of credit restriction. The federal loaning agencies can not use this method alone very effectively. If they refuse to appraise farms in terms of inflated values, the principal result will be that private loaning agencies will take most of the mortgages. Concerted action by the major public and private agencies could be helpful, but is difficult to arrange. Both fear that the little fellows would then take most of the loans.

Probably a more fundamental attack on the problem is needed, namely, that of soaking up the extra buying power of farm families through taxation and increased savings. The best form of taxation will be of the income type. The plan proposed by Professor Hart and discussed earlier in the chapter would cover farmers also. Compulsory savings would be more difficult to arrange, since farm receipts and expenditures are irregular from month to month. Taxes, with offsets for bond purchases, would be a better procedure.

As to whether farmers should pay off their mortgages or buy war bonds, there is a chance for difference of judgment. From the standpoint of winning the war one would recommend bond purchases now and then using these to pay off mortgages at the end of the war. But differences in the rate of interest on mortgages and upon bonds need to be taken into account.[1]

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[1] The writer's associate, Dr. Charles M. Hardin, has called attention to the political undesirability of having the war bonds owned after the war much more widely in the city than among farm people.

## CHAPTER XIX

# *PRICE FIXING AND PRICE MANIPULATION*

In the last war, as already explained, we did not concern ourselves much over inflation. Nor did we put ceilings on the prices of many products. There was concern over the possible skyrocketing of prices of some of the "necessaries of life," but it led to no large program of price fixing. In the farm product group there was direct control of wheat prices on a nation-wide basis, some attempts at manipulating hog prices in the principal markets, and a certain amount of interference with prices in city fluid milk markets.

This time we go about regulating prices boldly. We apply our controls to almost any price we choose, without much regard to type of commodity or market. We were content with wholesale markets at first, but have now entered the retail field.

Why this difference? Is it only because we feel more the need of checking inflation, and this feeling makes us bold? An equally important reason for it is that we think very differently about price fixing itself. We no longer have the same fears and doubts as in 1917–18 as to whether it can be done.

How has this come about? Just what is the state of our thinking about it now? How is price control accomplished now? If price control is one of the several methods by which inflation is to be kept under rein, we should know the answers to just such questions as these. It is the purpose of this chapter to provide such answers.

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We need to begin by clarifying our ideas about different forms of price control. First as to the matter of terms: A distinction is often made between price fixing and price *manipulation*, the first referring to the setting of prices at definite points and holding them there; the second, to operations designed to raise or lower prices but not to establish them definitely at any one point. The two merge in practice. Strictly speaking, price fixing establishes its price point by a public order—as an example, the Interstate Commerce Commission setting a rate on a freight haul. Actually almost the same effect may be produced by loan or purchase and diversion operations that "peg" the price at a definite level. A loan may be low enough, however, so that its only effect is to keep part of the supply from being brought to market as soon as usual. Then it is merely manipulative in its effect. A price ceiling may be set low enough so that no sales take place at lower figures.[1] Then it has the effect of rigid one-point price fixing. But frequently the ceiling is so high that it determines the price only some of the time.

Such programs as controlling output, or buying up temporary supplies and diverting them to irregular uses, as practiced in the Department of Agriculture, come under the head of manipulation. They raise prices if they are successful, but to no definite level. If production control should cause a nation to shift from being an exporter of a product to being an importer, prices would rise by the amounts of existing tariff duties, plus some extra transportation costs, and thereafter would fluctuate as before along with outside prices but at a higher level. Export subsidies tend to work in the same way. The tariff duties and export subsidies therefore do not set a definite level of prices, but they tend to establish a definite international spread.

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[1] Strictly speaking, the prices named in the general freeze order of April 28 are only maximums or ceilings.

The prices set by the Department of Agriculture in milk markets under marketing agreements or orders, are out-and-out price fixing. Also the "proclamation" prices for soybeans, peanuts, and the other ten products will peg prices definitely at these levels if they are set higher than need be to induce the required output. If they are set below this level, they will have only a general manipulative type of effect—the underwriting effect of a price guarantee.

It is not always understood by the public that price fixing or price manipulation may be private as well as public. It is private when a firm, or group of firms, operate in such a way in the market as in effect to establish a given level, or merely to influence prices in the desired direction. Also a good deal of price control is of course collective. Milk prices are regularly fixed by collective bargaining in many milk markets not under public control. In those under "orders" or "agreements," a federal public agency collaborates with the producer and distributor groups in setting prices.

We are now able better to fit the activities of the OPA and of various agencies in the Department of Agriculture into the general pattern of price controls. OPA uses the device of ceilings, which tend in many cases to become one-point prices. The Department of Agriculture's methods include both price fixing and price manipulation, but in general partake more of the latter. As the levels of the loan percentages have been increased by statute, however, they have either become out-and-out price pegging, or have approached it more closely. The surplus buying and disposal operations frequently do become price pegging in effect. The stamp program procedure, we shall see later, is purely manipulative. The proclamation price procedure may be price pegging or may not.

The methods used by the two agencies have in the past been determined by their differing objectives, one in the main to keep prices down, the other in the main to raise them. Now their objectives are no longer so diametrically opposed. Theoretically, one should now be concerned with getting prices down to a "necessary price" level and no further; the other, with getting them up to that level and no further. They ought, therefore, to come out at the same level. In practice, they will not in many cases—at least not for a while. Left to themselves, the staffs of the two agencies would come to this point rather soon. But Congress will not let them do it—Congress is not interested in necessary prices.

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Why has the attitude of public agencies and of the public generally come to change with respect to the need for and possibilities of price fixing? Mostly as a result of experience with various forms of control since the last war, and particularly since 1930. The Department of Agriculture and thirty-odd state milk control boards are now fixing the price of milk.[1] This began in New York State. A decision of the U. S. Supreme Court, constituted even as it was away back in 1933, opened the way for this kind of control. More revolutionary by far is the present use by the Department of Agriculture of the procedure of pegging commodity price levels by loans, and then disposing of the accumulated stocks "outside the normal channels of trade," if the desire is to keep them from rising above this level. The methods of

[1] The retail prices of fluid milk now have their ceilings set at their March 1942 levels, under the General Maximum Price Regulation of April 28.

disposal of stocks are fully as important as the loan operations. Put the two together and price levels really can be pegged—within certain limits hereafter to be explained. So important have these two types of procedure become in recent years that each of them will be discussed in separate chapters following this one.

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One must not get the idea from the foregoing that price fixing or price control in any form stands in high repute among economists, nor among lawyers, statesmen, or the public generally. For the most part, the attitude toward it is one of tolerance of a necessary evil in a period of emergency. At an economic conference on Price Policy held in New York three years ago, the writer called attention to the fact that every one present was apparently assuming that the "price rigidities" which we were discussing were going to be broken down and that we would soon have "flexibility" again. He then asked if this was a safe assumption, if the trend was not in the other direction, and if therefore economists should not be giving part of their thoughts to methods of making partly inflexible price systems function right. Did anyone follow with approving comment? You know the answer. The discussion shifted to other fields as quickly as possible.

At Iowa State College, Professor T. W. Schultz and some of his associates have in recent years been developing a line of thinking that in application calls for the use of price-pegging loans as a positive device for establishing prices of farm products at equilibrium or necessary price levels. Surplus stocks of good years are to be carried over to later years, the acreage any year to take account of carryovers. The granary will thus be kept somewhere near a level that will assure a year's supply for domestic consumption and such export as can be anticipated. An important feature of this proposal is the announcing of these guaranteed necessary prices a year or so in advance so that farmers can plan their production accordingly. Under this procedure, prices can be made a positive device for redirecting the use of agricultural resources into the right lines of production.

When at a meeting of the American Farm Economic Association at New Orleans in December 1940 the writer described this proposal of Professor Schultz's as involving a form of price fixing, the audience of economists almost without exception assumed that he had thereby condemned it completely; and the proponents of the plan felt that he had dealt with it unfairly. All that the writer intended to do was to state an obvious fact about it. To him, the term price fixing no longer carries any opprobrium with it.

The prevailing attitude of economists and the general public toward price fixing has a very good and very simple explanation. Price fixing is about as complete an antithesis as one can find to the free competition that has been the accepted ideal of democratic society for a century and a half. Back in the Middle Ages the European world had a good deal of price fixing. The prevailing judgment was that prices should be fixed at a "fair" level. The clergy conferred on such prices a sort of divine sanction. The authority of the Church, the guilds and other established institutions was sufficient to maintain these prices. Little of what we now speak of as free competition existed in such societies. With the rapid growth of trade between communities, cities and countries that came with the breakdown of feudalism and the rapid evolution of the institutions of freedom, economic as well as political—a movement culminating in our own American Revolution on this continent and the

French Revolution in Europe—all these historic authorities broke down. Prices came to be established by an increasingly free play of the forces of supply and demand. In the first hundred years of our republic, very few prices indeed were publicly fixed.

With these changes in institutions, a new notion of "fair price" came generally to be accepted, namely, a price that resulted from an absolutely free exercise of individual competition. The moral codes of this new laissez-faire era bestowed their approval on prices thus determined. One of this country's great economists, John Bates Clark, in a famous essay on "Spiritual Economics," written about 1880, said that a man could rise in the morning, turn his face to the heavens from whence cometh light and truth and give thanks to his Maker for all his manifold blessings; and then walk down to his office and with a pure conscience put his competitor entirely out of business, so long as he did it fairly and in keeping with the principles of pure competition. A world functioning this way was believed to be a better world, with the resources of society more fully utilized.

But for all its devotion to this new principle, not even the most democratic of the societies ever accepted it without qualification, and before long were beginning to depart from it in one way or another. An early departure in this country was our granting an inventor a patent under which he was able, theoretically at least, to prevent any competitor from invading his market and to charge whatever prices he saw fit. This was a definite harking back to the days when special concessions were given to individuals and trading companies to exploit the public, or at least the peoples of other lands. There never was any question of ability to fix prices under this system. There simply was no one else from whom to obtain the product. If the patent owner was wise, he did not set the price so high as to reduce his total net income, but this was the only restraint upon him.

The next major departure took the form of fixing of public utility rates, a movement which grew rapidly toward the end of the last century. The object of this control was to keep prices down, not up. There was no difficulty about enforcing the rates, since only one or a few firms were involved. In the nature of things frequently there was no competition whatever. It was not feasible to have two streetcar companies putting in competing tracks down the same main street. The general principle upon which public utility rates came to be set was that of a "reasonable" rate of return on the investment. Reasonable was defined as a rate which would attract the *necessary* capital into each enterprise.

From our present point of view, probably the next big step was the extension of price fixing in peacetime to a farm commodity considered as a necessary of life—to milk in in New York State. The Supreme Court in its opinion rendered March 1934 wrote to the following effect: "In the light of the facts, the (milk) order appears not unreasonable or arbitrary, nor without relation to the purpose to prevent ruthless competition from destroying the wholesale price structures upon which the farmer depends for his livelihood and the community for an assured supply of milk." [1] The Court further said that whether or not the milk business "was affected with a public interest" had ceased to be an important question, that "there is no closed category of business affected with a public interest." The New York State Milk Control Act under which the case arose had been set up upon an emergency basis; but the court made no reference to an emergency as justifying its decision.

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[1] The Nebbia case. The decision was 5 to 4, Roberts writing the opinion, and Hughes, Stone, Brandeis, and Cardozo concurring.

This decision pretty well established the power of a state to fix the prices of milk and other essential commodities if the conditions of competition warrant it. The power of the federal government to do this in interstate milk markets was finally established in the case of U. S. v. H. P. Hood, Inc., which came to a head in the Boston market in 1939.

The actual operation of price fixing in interstate fluid milk markets is conducted under regulations laid down in the Agricultural Marketing Agreement Act of 1937, and a few subsequent amendments. The original provisions for this, in the 1933 AAA Act, were entirely inadequate and led to a long series of legal difficulties, legislative battles, and revisions of statutes. Under all its forms, the principle has held of a three-party understanding between the organized producers, the distributors, and the U. S. Department of Agriculture. The understandings were first called "marketing agreements." After the Schechter decision they were called "marketing orders." Only prices paid to producers are fixed in these orders. State milk control boards frequently establish the resale price in the same markets.

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No discussion of the subject should proceed very far without some reference to the extent and nature of private price fixing. In the ordinary thinking of the day, this implies monopoly. The word monopoly, in its origin, assumes one person or one firm having complete and exclusive control of the whole supply. Outside of the patent monopolies and public utilities, few such set-ups exist. Even in the case of most patent controls, potential competition is an ever-present threat. The usual so-called monopoly situation includes a good deal of actual if not potential competition. On the other hand, relatively few purely competitive situations are found. Instead, what has recently been called either "imperfect" or monopolistic" competition is the usual state of affairs. The producers of most products are able, in one way or another, to exercise at least some little measure of control over their price and to obtain some reward therefor in higher profits. The few remaining cases of pure or almost pure competition are found mostly in the markets for farm products or commodities derived therefrom. It has now become apparent that rival firms commonly need not enter into conspiracies in order to maintain prices at profitable levels. They learn by experience that all can make more money by not underselling each other.

Today even some cooperatives handling farm products are able to exert some measure of monopoly control over the prices of the products which they handle. The outstanding examples of this are some of the more strongly entrenched milk producer associations.

One of the author's early teachers, Professor John R. Commons at the University of Wisconsin, used to say over and over again that society could not stand having prices fixed by private enterprises, that as soon as prices in any field came to be dominated by one firm or any kind of mutual behavior of a few firms, the public would need to step in and fix prices. It is now obvious that Professor Commons was thinking about a more nearly competitive society than existed even in his own time. Practically we have to live with a good deal of dominance of the market by one or a few companies, since the alternative to it would be a degree of public control of enterprise which would be still more offensive.

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Before passing on to the discussion of price control by loans, we need a word or two more about the control of prices through tariff duties. Levying a duty of three cents a pound on sugar will not establish the exact level of sugar prices in this country, but it will insure that our prices are three cents higher than the world level of prices however that happens to move; likewise a tariff duty on flaxseed or any other product for which the domestic supply does not equal the domestic consumption. We learned a long while ago how to make the tariff machinery work to attain a desired end of higher domestic prices. The McNary-Haugen bills contemplated making the tariff duties add similarly to the prices of products of which we had an export surplus, such as wheat and cotton, by making use of the device of subsidizing a sufficient export of these to put the domestic supply on a deficit basis. President Coolidge in his first veto message, strangely enough, said this bill was unconstitutional because it was price fixing!

Along about 1930 the proposal was made to break the supply of any product of the export type into two parts: one part, equal to normal domestic consumption, to be sold in the domestic market at the tariff-supported price, the rest to be sold in the foreign market at the world level of prices. This was the so-called Domestic Allotment Plan which was finally introduced into Congress, but in considerably modified form, in the Hope-Norbeck Bill of 1932, which President Roosevelt espoused in his first presidential campaign. In its original form the Domestic Allotment Plan would have set up a two-price system: one for the domestic market and the other for the foreign market. This too would have been price fixing only in the sense that tariff duties are price fixing. Under it also, prices would have moved up and down from month to month with the level of prices in the outside world.

## CHAPTER XX

# *LOANS WITHOUT RECOURSE*

Loans without recourse are loans on storable commodities held by farmers which they can redeem or not as they see fit. They may see fit if the price keeps above the loan value and they need the additional income, or if they think the moment a good one at which to sell. If the price has dropped below the loan value, they let the government worry. The government in such case is likely to extend the loan, hoping for higher prices in another year. This effectively holds the supply off the market and keeps it from depressing the price. If the government loaning agency were to become desperate for funds, call the loans and take a loss on the price declines, this would, of course, break the market; but the government is not doing that sort of thing any more. Congress sees to it that the Commodity Credit Corporation is supplied with ample funds and does not need to. Or if the loaning agency does call the loans and take the loss, it usually holds the stock off the market except as it can be released without "demoralizing" the market. In general this means that the government tends to accumulate stocks from year to year. It is still easier for it to buy and hold than to get rid of its accumulated stocks.[1]

Confronted by an offer of such a loan, the producer of cotton, wheat or corn considers whether the loan offer is higher than the market is likely to be. If he thinks it is, he is pretty sure to accept it and put his crop in storage, counting upon "selling it to the government." If he thinks otherwise, he may take out the loan anyway, taking advantage of the government's offer to help him carry his crop until he wants to sell it or feed it. Under the terms of the loans, he is free to pay up at any time and claim his product. The interest charge is only 4 percent, and if it's corn, he usually has storage facilities of his own.[1]

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[1] Of course, the recent undertaking of the government to dispose of stocks for the purpose of checking a price rise does not fit this description, but it has a highly unusual explanation.

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The evolution of this interesting price control device really began with the "commodity advances" and "stabilization corporations" provided for in the Agricultural Marketing Act of 1929. The commodity advances were to cooperatives, in the first instance, but through them to grower members who surrendered their product into the cooperative's pools. These were not loans without recourse. If the cooperative found that it had advanced more to the growers than the pool finally sold for, the members were legally obligated to the cooperative for the amount of the difference. Practically it proved difficult to collect from them. Most cooperatives in such a predicament folded up; or governments came to their rescue; or both happened.

The "stabilization corporations" were quasi-public agencies to which the government made large advances to enable them to go out and buy liberally to strengthen a weak market. The market was expected to be stronger later on, maybe only in the following year, at which time the corporation would unload its stock, deduct its carrying and operating costs, and declare a profit which would be put into a reserve account.

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[1] Since 1940, the loans have been demand loans, which the government can call at any time. But the government has called very few of them. If the product were worth more than the loan when called, the producer would receive a check for his equity.

The commodity advances enabled the cooperatives to hold a product in a pool which otherwise would have been thrown upon the market. The general effect of such advances was therefore manipulative only. The corporations, on the other hand, could actually peg the price by buying all that was offered for sale at prices below the desired level. By this means, the price of wheat was held at around 70 cents per bushel from mid-November, 1930, till the following spring. When buying ceased, the market broke. The stocks in the corporation's hands weighed down the market as much if not more than if held in private hands. The farm price of wheat fell from 60 cents a bushel in May to 36 cents by July.

The background for the commodity advance and stabilization corporation program was laid in the Sapiro cooperative marketing drive in the early 20's. Mr. Sapiro's pet phrase for the program was "orderly marketing." His notion of the best procedure was to put the total supply of a product into a big pool and feed it to the market in an orderly manner so as not to break the price. Perishable crops of course had to be disposed of within the regular season. But if a crop of a non-perishable was unusually large, it paid to hold a larger supply than customary over into the year following. He sometimes denied this last statement, but somehow most of the state cotton cooperatives which he helped organize followed this line to their sorrow in 1929, as also did the Canadian Wheat Pool which he later helped into being. The state cotton pools were baled out temporarily by the commodity advances of the Federal Farm Board; the Canadian Wheat Pool by loans from the provincial governments.

There were several men in the administration of agriculture in the 20's who had consciously or unconsciously accepted the Sapiro doctrine. One of these was Secretary of Agriculture James Jardine. All during his regime he vigorously espoused a holding program to be conducted by stabilization corporations. Candidate Herbert Hoover was badly in need of some agricultural planks for his agricultural raft during his campaign in 1928. The one which he came to rely on most was a restatement of the Jardine stabilization corporation idea. This was written into the Agricultural Marketing Act of 1929. It was upon President Hoover's urging that the Farm Board presently began setting up the cotton and wheat stabilization corporations when the markets began to break badly in the winter of 1929–30.

The Board's $500,000,000 revolving fund was very soon all tied up in stocks accumulated by the stabilization corporations and the cooperatives. The corporations could no longer continue their purchases. The cooperatives could not even keep their pools going in some cases. This was indeed a bad time in which to try out such a venture. The whole world economy was in a tailspin. Prices were tottering like skyscrapers in a San Francisco earthquake. If the times had been about normal, the outcome would have been very different. Or even if the Farm Board could have had resources with which to carry on with its loans. The last Congress raised the capital of the Commodity Credit Corporation, our nearest equivalent of the Farm Board, from $1,400,000,000 to $2,650,000,000.

The Farm Board mustered two ideas as to how to deal with the situation in which it found itself. One was to get the farmers to cut down their new-crop plantings. Board members conducted a tour of exhortation in the wheat and cotton states, but to little avail. Later one of the members went to the limit of asking cotton farmers to plow under every third row. At the end, the Farm Board was ready to advocate an all-out production control program. The other idea was that it is cheaper to carry over part of a bumper crop than to grow the same amount the next year. Growers of both wheat and cotton had strongly urged upon the Farm Board a plan of guaranteeing a price for a part of their product that might be carried over upon condition that they refrained from producing an equivalent amount in the new year. These proposals were then known as the "wheat option" and the "cotton option" plans. The Farm Board experimented with the latter to the extent of entering into an informal agreement with the Southern bankers in the winter of 1932 not to call the Board's loans to the cooperatives if the bankers would promise not to make new loans to farmers to grow more cotton. In the closing days of the last Hoover Congress, a cotton option bill actually passed both Houses of Congress.

The draft of the Agricultural Adjustment Administration of 1933 that was finally approved included a cotton option provision. The growers were given the alternative of taking benefit payments in cash or in cash plus a given quantity of cotton at six cents per pound on condition of refraining from production of the same amount. The AAA was also instructed to take over the cotton holdings of the former Federal Farm Board, those both of the stabilization corporations and of the cotton cooperatives. The total amount thus acquired was 2,476,000 bales. At no time since then has the Department of Agriculture ever been free from a reserve of cotton.

Although the AAA act itself did not authorize a loan program, a provision of the National Industrial Recovery Act did; and in 1935 the Adjustment Act itself was so amended as to make this possible. Undaunted by the Federal Farm Board's experience, the government again offered to lend more than the loan value of cotton in the fall of 1933. The loan policy for cotton has been continued in succeeding years, the loan values usually being set fairly close to the expected market price.

A corn loan program was also begun in the fall of 1933. In the first year $122,000,000 was loaned on the security of 271,000,000 bushels of corn stored and sealed on the borrowers' farms. This particular loan proved unusually successful because of the ensuing drouth and short corn crop in 1935. The corn held out of consumption in 1933 was needed much more the year following.

The decision of the Department of Agriculture to embark on the corn and cotton loan ventures in the fall of 1933 was undertaken as a means of heading off the demands of Senator Thomas and a group of farm leaders and spokesmen who were asking for still more drastic legislation than had thus far been provided, to give prices of farm products a renewed upward surge following the recession from the 1933 mid-summer peaks. It will be remembered that Senator Thomas had been the author of an amendment granting very liberal powers with respect to the currency. He wanted these powers used. President Roosevelt was not yet in a state of mind to do this.

The success with the corn loan and the general satisfaction of the cotton growers with their end of the loan program insured its continuance. The loan feature became the most popular part of the New Deal agricultural program. The plowing under of the cotton, the slaughtering of the pigs and other production restriction devices played their part in maintaining commodity prices and in underwriting the loans, but this was frequently overlooked.

Secretary Wallace presently began looking at the loan program with more charitable eyes. It seemed to him to offer particular advantages in the case of feed crops like corn. The experiences of the severe drouths of 1934 and 1936 played their part in his conversion. It will be remembered that some farm products, including corn, were imported in these years. This precipitated a burst of protest from the protectionist leaders among the farmers which threatened to undermine the whole reciprocal trading program of the Administration to which Secretary Wallace was much attached. Images of the seven lean and the seven fat years of old Egypt began to dance before his eyes. The doctrine of the ever-normal granary which he presently formulated met with easy acceptance among the farmers and their spokesmen, and was written into the new version of the agricultural legislation in 1936.

By 1938, Congress was no longer willing to let the Department of Agriculture exercise its original discretion in administering the AAA. Accordingly it specified an upper and lower limit—52 to 75 percent of parity prices—within which the loan advances must be made. These loans were commonly made at or near the lower figure, but even this proved to be excessive in some years. Since then, as has been explained, Congress has set a bottom of 85 percent of parity; and more has been asked for.

The new war has made the large stocks of cotton and wheat and other products that have been accumulated look much better than they did. The general rise in prices which has occurred has gone far toward redeeming the losses which were threatened. Technically speaking, the government could now call its outstanding loans and recover much of its investment in them. Also a foundation has been laid for a claim that the granary program is proving of great service in winning the war. Had not Germany been building up stocks and consciously preparing for a war effort? Were we not doing the same thing just as a matter of following the general principle of preparing for any emergency? (This in spite of the fact that during most of the years since 1933 the government would very gladly have seen its granaries less near to overflowing than they were). Nevertheless, as is the case with many other policies, the times in which we are now living call for procedures that have not heretofore been considered advantageous.

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How advantageous a stabilization loan program will prove in ordinary times is not easy to determine. The shape of the total revenue curve is the most fundamental of all the factors involved. When President Hoover's stabilization proposal was before Congress in 1929, the writer presented an analysis in these terms before the agricultural committees of both houses of Congress. The revenue curves used were those later published in *Agricultural Reform*, of which we have written in Chapter XV. The better curves now presented in Chapter XV do not altogether support the earlier conclusions. But the generalizations are of the same order. Our interest in the revenue curves in Chapter XV was to determine from them how large a crop to produce. Our interest in them here is in answering the further question: Having produced the crop, what shall we do with it?

For a product with a downward sloping revenue curve throughout its whole distance, such as cotton is supposed to have, and probably does have, the answer is that if we are thinking of one crop at a time, and of agriculture's welfare only, and need not worry about the effects of such a procedure after following it for several years, or of hostile public reactions, just dump a part of it into the ocean, or burn it. The answer would be the same if we are thinking of all meats.

In view of the fact that following such a program would raise the average price paid by consumers over several years and probably induce changes in dietary habits, one must doubt whether it would be good policy very long.

The adverse public reaction to destroying excess supplies can be met in part or in whole by disposing of them "outside the normal channels of trade." Such channels might be conversion to lower-order uses (cotton to road building, potatoes to starch), sale at low prices to a country not normally buying of us, or distribution to relief families at home.

Merely holding cotton over to sell in another year would offer no promise of gain. The conclusions to this effect worked out in detail in *Agricultural Reform* are still applicable, since they are based upon the same type of revenue curve as presented here. If we have a product like corn with a curve which is higher in the middle than at the ends, or is at least rounded downward toward both ends, some of the excess of a large crop can be held over and sold in years when the crop is unusually small, and out of this will tend to come supplies tending to average near the middle where total revenues are largest. What will pay best will be to even out the supplies offered for sale at somewhere near the middle high-revenue point.

Of course there is some question even with such products as to whether the average cost to users will not be raised to a point resulting in considerable substitution after several years. With many direct consumption products, however, level prices year after year are a definite asset in keeping up consumption—occasional years of short supplies and high prices are bad for consumption.

For a product with a revenue curve like hogs, upward sloping most of the way, and then turning down a little, a policy paralleling the foregoing would consist of diverting considerable supplies much of the time outside the usual channels of trade, but also watching for impending short runs of hogs in phases of the hog cycle, and at such times holding back supplies of cured products and lard to take advantage of the gains from keeping supplies up to the high-revenue point of 68 pounds per capita. But the diversion part of such a policy would undoubtedly lead to substitution in very short order and would lose money for hog producers within a few years.

For a product like wheat, nothing would appear to be gained from holding supplies off the market—provided there really is a market! The revenue curve shown still rises with larger volume, but this simply means that enough more wheat has been disposed somehow when stocks were large than when they were low to produce the effect appearing in the curve.

There is nothing in the revenue curves for all farm products combined, not even in the curve for 1934–40, that indicates that a program of increasing carryovers would be advantageous to agriculture even in a run of two or three years.

A general agriculture-wide program of diverting farm products to abnormal uses would help agriculture in the very short run if we accept the 1934–40 revenue curve as valid. Within a few years, however, our population would find ways of getting the same calories of food energy at less cost by using cheaper types of foods.

Closing this discussion of revenue curves and price stabilization at this point, as the writer intends, leaves it in greatly over-simplified form. There are other types of revenue curves that might be considered, and more refinements of analysis of the types mentioned. However, enough has been said to illustrate the major principles involved.[1]

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Most of the proposals for stabilization of supplies and prices since 1932 have been tied in with proposals for production control. Combining production control with a holding program does change the nature of the conclusions reached as to the economy of such an undertaking. If the on-coming crop can be reduced whenever the carryover is unusually large, there will be a fundamentally better market in which to dispose of the extra carryover. Given sufficiently rigorous production adjustment, the growers of non-perishable crops like wheat and cotton can in effect substitute the surplus held over from the preceding year for part of a new crop and thus save the cost of producing it. Thus in a sense there will be balanced against each other the cost of carrying this supply from one year to the next and the cost of producing it in the second year.

But it is easy to miscalculate on such a problem. Always before us must be the question as to what use will be made of the land which is kept out of production if this cotton or wheat is not grown in the second year, and what use will be made of the equipment and labor of the farmer and his family. In much of the cotton and wheat growing area, there is very little else to turn to as a substitute crop. Under these circumstances about the only costs that can be balanced against the carryover costs are the additional cash costs saved by not producing the wheat and cotton of the second year.

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[1] Even what is here said assumes too much validity for the revenue curves taken as examples. Dr. Adolph Kozlik's position on this point is fully justified. See *Journal of Farm Economics*, November 1941.

The complete answer to the question of advantages and disadvantages of stabilization programs, and of stabilization plus production control programs, involves several other important considerations. One of these is the value of the benefits derived from more *stable* prices and income from year to year that can result from a properly administered program of these types. Another is the social undesirability from a consumer's point of view of having supplies and prices fluctuate from year to year with short crops and large crops.

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We are now in a position to understand the nature of the proposals of Professor T. W. Schultz presented in Chapter XIX. There is not the slightest suggestion in them of any effort to manipulate prices from year to year in such a way as to increase agricultural revenue at the expense of the consumers. He visualizes a level of consumption as large as if not larger than now, and more uniform from year to year. He merely wishes to use the device of loans without recourse to set the level of prices of each major farm product from year to year. His procedure calls for forecasting a year or two ahead the price which will call forth the supply that consumers will take at that price year-in and year-out. In other words, he wants the loan values to be set at what is technically known to the economist as the equilibrium point, the point at which the forces of supply and demand come into balance. He of course expects that the extremities of weather will produce relatively large and small crops in particular years, but the excess of the good year will go into a granary which will need to be maintained at a somewhat higher level than would be necessary with no such control.[1] This extra storage will involve some additional carryover costs, but these will be more than compensated for by the saving in production and transportation costs from violently fluctuating production. Producers will know in advance what price they will receive and will be able to plan their production more rationally from year to year. Thus, in Professor Schultz's thinking, prices established through loans can become a positive device for introducing stability and rationality into our agricultural production and marketing.

Some difficulties confront such a program, as its proponents fully recognize. First, it calls for success in forecasting what the level of prices is that will call forth a balanced production and consumption. This is a task for the economic statisticians for which they do not yet have the necessary facts or understanding. The author does not consider this a very serious obstacle. He believes that prices can be set which are near enough to the equilibrium point so that with necessary adjustments from year to year they will work acceptably. A cut-and-try process will be adequate for this need.

The second of the difficulties is only a psychological one. Farmers tend to respond with a larger output to a guaranteed price announced well in advance than they will to the same price that happens to average out that way over the same span of years. This means that the stabilized prices thus attained will be lower than present equilibrium prices. The farmers will not suffer from this because they will benefit from reduced costs, from not having to carry as large risks as before, and from more certain incomes. Unfortunately, however, among the spokesmen for agriculture are a good many leaders so shortsighted that they are disposed to look upon this plan mainly as one for lowering prices.

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[1] In the days before President Hoover and the Farm Board, a large crop and low price was likely to be followed by an unusually small one, and conversely a small crop and a high price by an unusually large one. These responses had the effect of insuring a somewhere nearly sufficient supply in case yields were low during a third year as occasionally happened. If prices and plantings are maintained at a more nearly average level, as Professor Schultz proposes, there will not be these large responses to prepare us for emergencies.

The third difficulty is that stabilizing the incomes merely of farmers will not prevent the recurrence from time to time of major business depressions with their sharply breaking prices. Conceivably a government could work out a program for maintaining agricultural production, food consumption and prices through a long serious breakdown such as from 1930 to 1935; but either it would be extremely costly or else would call for the use of more drastic measures than this nation has ever been willing to take except in wartime.

The fourth difficulty is related to the second. Not only are the agricultural spokesmen, and probably the great bulk of actual farmers, unready to accept prices for their products stabilized at the equilibrium point defined, but most of the time have been agitating for price levels well above this point. Our farmers are not generally interested in merely stable prices. What they really want is higher prices. Over a decade or two our farmers may come to see the great advantages to them of accepting a program of stabilized equilibrium prices, but they are not ready for it yet. In the meantime there will be the problem of making any program of this sort work well enough so as not to break down. The probable outcome will be the setting of prices at a level that will result in the accumulation of stocks from year to year, followed by the distribution of these from time to time as they accumulate, among our own low-income, underfed and underclothed people, and if necessary, even the diversion of some supplies to less valuable uses in ways to be discussed in the next chapter.

*The trend of developments points clearly in the direction of increasing use of loans without recourse as a means of stabilizing production, prices and consumption. The difficulties, the writer predicts, although very real, will be met sufficiently well to insure a continuance of the program. We shall learn much about how to make it operate during the war years, and further this experience in the early post-war years.* The most serious threat to its continuance is the intent of the Farm Bloc to interfere with its proper functioning, as exhibited in the bill now before the Senate designed to prevent sale of granary stocks below parity levels. The essence of successful operation of such a program is free movement out of the granary as well as in.

## CHAPTER XXI

# *PURCHASE AND DISPOSAL*

Conceivably a program of loans without recourse will never need the service of an accompanying disposal program to relieve it of embarrassingly large stocks. A big war every five years, for example, may do the trick instead. But even then there would be disposal to the allied nations. The first World War helped out the Brazilian coffee valorization scheme; this new war is helping out our own cotton, wheat and corn valorization schemes. To be sure, we have not commonly thought of our AAA program as carrying the valorization label. But in practice it has earned the right to such a name since the ever-normal granary was woven into it.

How important the need for the disposal service will depend upon how much price enhancement or valorization is undertaken through the medium of the loans. The writer predicted in the last chapter that many years—ten to fifty of them, he was thinking—will pass before our agricultural body politic will allow a loan program to operate without an appreciable amount of valorization in it. He was of course assuming that we retain our present methods of political functioning—our commodity pressure groups, lobbies, congressmen and all the rest.

Purchase and disposal must not, however, be thought of only as an aid to a loan program. It has been used much more freely in recent years in handling large stocks of perishable and semi-perishable products with no antecedent loans. Purchase and disposal have an older history of use in this country than loans without recourse. A variety of forms of purchase and disposal operations have been developed, including more recently the stamp program and the school lunch program. Finally has come purchasing for Lend-Lease, for the army and navy, and for wartime civilian needs.

The following classification of types of purchase and disposal operations will make our discussion more systematic:

I. Taking over commodities under loans without recourse. This may be followed by:

(a) Disposal at a subsequent time through the normal channels of trade, or—

(b) Disposal outside the normal channels of trade.

II. Purchase of excess production to strengthen the market, followed by disposal outside the normal channels of trade.

III. Purchase for Lend-Lease, and for army and navy wartime civilian use, at prices known in advance.

IV. Purchase to support proclamation prices and disposal through any type of channel, including Lend-Lease, etc.

Under none of these heads comes the direct export subsidy which is provided for under Section 32. The government does not take title under such subsidies.

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The economic principles basic to purchase and disposal operations have mostly been presented. If the disposal is outside the normal channels of trade, it is important whether it is wholly outside or only partly so.

If wholly, then the effect is the same as if the product were destroyed. This would increase revenue, in the short run, from a product like cotton with a curve sloping upward to the left. But it would actually reduce the income from any product that has a revenue curve rising toward the right during its whole course, like wheat; [1] or even if it were done at points in any revenue curve that are bending upward, such as in the early parts of the curves for both corn and hogs. For these two products this means that to destroy parts of small supplies would reduce the revenue, but not to destroy parts of large supplies.

If a product is disposed of in some low-value use to which little or none of it ordinarily goes—like making road blocks from cotton, or fertilizer from hogs—the effects on the regular trade price and on revenue will be about the same as if it were destroyed. The income from the low-value use will be a small factor in the result; the main effect will be that from reduction of the supply offered in the regular channels.

If, however, the lower-value use is a rather important one, to which part of the product normally goes, and a somewhat larger amount than usual is diverted to such use, then the answer is not so simple. Diverting more than the usual proportion of pork into lard will illustrate this case. Two revenue curves are involved here, one for pork and one for lard. We need to know what adding or subtracting 10 percent, 20 percent, etc., to or from the pork supply will do to the net revenue from pork; and the same for the lard equivalent of these amounts of pork added to or subtracted from the supply of lard. Our answer is the sum of these two results. In general, the revenue curves for the principal uses—such as hogs for pork, and in a milkshed, milk as fluid milk instead of butter and cheese—have curves sloping upward to the left in such a way that diversion from main uses adds to the revenue from this source more than any possible decrease in revenue from a larger supply turned to the secondary uses.

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[1] The further condition must be added that the wheat really can be exported at world prices.

Diverting part of the supply to low-income families involves the same principle as the foregoing, but with one important addition. The upper-income and lower-income groups are really two outlets each with its own revenue curve, the relation between the two curves being such that the combined effect on the two of diverting from the upper to the lower is an increased revenue from the whole supply. This is clearly the case with milk. To make the result come out this way, however, the two income groups must be kept clearly separate, and *upper-income families cannot be allowed to shift to the lower-income group.*

All the statements of principle above are in terms of short-run effects. After a few years, any holding up of prices in the high-value uses is likely to result in shifts to other articles of diet which will wipe out the short-run gains. This will be less true if the high-grade uses are mostly practiced by well-to-do families than if large masses of the population are involved. It will be less true for cream than for fluid milk.

Longer run effects apply the other way around with most of the diversion programs. Under the school lunch program, for example, the children form habits of eating the foods furnished that they carry into their homes and along into life. Milk furnished to low-income families at reduced prices brings somewhat the same result. The stamp program can also be managed so as to contribute greatly to the same ends.

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With this background we are in a position to review and interpret the various purchase and disposal activities in which agricultural agencies have engaged in this country in the past decade.

Disposal of publicly held stocks of farm products actually began during the Federal Farm Board regime. Some 47 million bushels of wheat were sold, or traded, under terms that then seemed slightly sacrificial, to China, Germany and Brazil. A little later Congress turned over 40 millions of wheat to the American Red Cross without any compensation to the Board whatever. The Farm Board assumed, and apparently so did Congress, that all this wheat would go directly to families on relief, and that the Red Cross would take care of any expenses of transportation and processing. But President Hoover, who was also the Red Cross president at the time, ruled otherwise; and the procedure was developed of paying in wheat all the bills for processing and freight submitted by the millers. When this same procedure was applied to the cotton also presently voted to the Red Cross the families on relief received only about a fourth of the actual cotton transferred.

The farmer spokesmen of those years offered little or no objection to these disposal deals. They did not look upon them as depressing the price by supplanting purchases through the normal channels of trade. In fact, they were more concerned over the huge stocks in government hands, or held on government-supplied credit, which seemed to be hanging over the market and weighing it down like lead. They had not yet got the idea of having the government hold it indefinitely regardless of carrying costs.

Disposal of surpluses in the export market was of course the essential feature of the McNary-Haugen and Domestic Allotment proposals. This feature was carried over into the Hope-Norbeck bills of 1932, with one significant addition, in which the author had a hand at the time, to the effect that whenever "unexpected surpluses developed in any way," the administrative board might "remove the surplus from the market, and dispose of it in by-product or other less-valuable uses"—in the *domestic* market, this meant.

The AAA act finally enacted in May 1933 was more liberal in its terms. The funds collected from processing taxes could be used "for expansion of markets and disposal of surplus agricultural products," with no reference to either foreign or domestic. Presently the Federal Emergency Relief Administration began making funds available to buy surplus farm products. The amendments in 1935 not only broadened the loan program, but authorized payments—

> "(a) to remove from the normal channels of trade and commerce quantities of any basic agricultural commodity or product thereof;
> (b) to expand domestic or foreign markets for any basic agricultural commodity or product thereof."

Then in the same amending act followed Section 32, the basic legislation for all the surplus marketing activity since, in which Congress authorized the use of an amount equal to 30 percent of the gross customs receipts for two purposes, the first of which was in effect export subsidy, and the second of which was to

> "encourage the domestic consumption of such commodities or products by diverting them, by the payment of benefits or indemnities or by other means, from the normal channels of trade and commerce."

President Roosevelt did not like this Section 32, and asked its repeal in his budget message in 1936; but Congress was otherwise inclined. In the first year only one million dollars was spent on export diversion, and 13.5 million on domestic diversion operations. The available customs receipts were 90 million.

But the AAA had not waited for Section 32. Its processing tax funds were used to finance the export of 28 million bushels of wheat from North Pacific ports in 1933–34. With RFC loan help, cotton was exported to Russia; also tobacco, prunes, walnuts and pecans to Great Britain and elsewhere.

The AAA's first operation in the domestic market had to do with butter. Twice the Federal Farm Board had made loans to the Land O'Lakes Creameries to buy and hold butter, and neither venture turned out badly, thanks partly to lucky breaks in the market. When markets weakened in the summer of 1933, the dairy folks were ready for another deal of the same sort. Secretary Wallace authorized the Land O' Lakes Association to start buying. Later a special Dairy Marketing Corporation was set up to handle the operation. As had been demonstrated earlier by the Farm Board, it proved possible to peg the price at a chosen level simply by buying all offered at that level. The Land O' Lakes Association chose 24 cents a pound as its pegged price, and on this basis 33 million pounds were acquired up to November 13 when buying was stopped.

If this operation was merely for the purpose of stabilizing the market, the butter later to be turned into the same market, the 24 cents was too high. Hence the market broke when the buying closed. But by July, a new agency, the Federal Surplus Relief Corporation, had taken over all the stocks. If it could have been determined in advance that the FSRC would do this, the buying could have been continued. By the end of 1935, around 75 million pounds of butter, and sizable amounts of cheddar cheese and evaporated milk, had been bought and moved into relief uses. At no time since has the dairy market been without surplus-buying support waiting in the shadow. This may be taken as the general type of surplus marketing operation in semi-perishables. Originally undertaken with a view to purchasing, storing and later selling, thus leveling out the price over the year, these operations presently became purchases for direct distribution to relief families. By 1936, a long list of perishable products had also been purchased and distributed by the FSRC—citrus fruits, grapes, pears, prunes, fresh and dried apples, cabbage, canned peas, potatoes, eggs and salmon.

The first significant operation in diversion to lower-value uses was that of peanuts to oil and stock feed in 1934–35 and the following year. The funds came first out of processing taxes, and after the Hoosac Mills decision, from Section 32 sources. The several efforts to deal with peanut surpluses in this way, right down to 1941, have met with the unfortunate result that the price support thus provided has induced a continuance if not expansion of production. Now in 1942, we are asking for a doubling of peanut acreage!

Other products thus diverted to lower-value uses, but on a small scale, in 1936 and since, are raisins, prunes, walnuts, olives, tobacco, and even cotton.

Writing on this subject in its report on "Three Years of the AAA" in 1937, the Brookings Institution concluded as follows:[1]

> "On balance, we conclude that if the support of farm prices in particular situations is recognized as a function of government, relief disposal is one method for carrying out this purpose that

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[1] Page 215.

shows sufficient net advantage to justify further experimentation."

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Certain major shifts in emphasis in the agricultural programs should be evident by this time. In the 20's, the concern was with orderly marketing and disposal of surpluses by export—let production swing pretty much as it would. The Agricultural Marketing Act was the fulfillment of that trend. In this Act there was a statement about promoting "orderly production," but it had no meaning until the Farm Board found itself with surpluses piling up on its own hands. Emphasis then shifted almost completely to keeping production within bounds. The first AAA act had only a few stray sentences dealing with surplus disposal through marketing—jimmied in by George Peek and the dairy lobbyists at the last minute. Nothing whatever about "consumption." The pressure of supplies on prices, and of the producer groups affected, forced full use and probably some stretching of the Congressional intent of these stray sentences; and the legislation in 1934–35–36 provided more and more specifically for dealing with the surpluses by such means, first, in terms of their disposal in the domestic market outside "the normal channels of trade," and presently in terms of domestic consumption. What may properly be called "consumption adjustment" had begun to creep into the program.

There were no significant humanitarian motives in this shift of interest toward consumption. It was merely that certain groups of farmers, notably the butter and cheese producers, were not in position to benefit from the AAA directly in the form of higher prices for their products. In fact, they feared that they might even be injured by the encouragement being given forage production as a soil conservation measure. Purchase and diversion of surpluses seemed to be a way of getting them a share in the benefits, and also of protecting them against the event of possible over-expansion of their lines of production.

In general, surplus purchase and diversion had become by this time the method of relief for the producers of the perishable and non-basic products. In dollars spent, it was pretty small potatoes compared with the subsidies to the cotton, wheat and tobacco growers.

Methods of administration shifted with the changing objectives. At the very outset, the purchasing was done by the Department of Agriculture for purposes only of supporting the market. But diversion to relief followed quickly afterwards. For a while the operations were handled through the FSRC, a joint instrumentality of FERA and the Department of Agriculture. This signified the joint objective of helping the farmers through finding them an outlet for their products, and also of helping relief families to some much needed food and clothing. This could be called the period when operations were motivated by the social doctrine that, "There shall be no starving in the midst of plenty."

The Department of Agriculture workers never enjoyed their working relations with the FERA. The mixture of the two objectives confused them. They wanted pretty much the whole business in their own hands. It was agriculture's food, wasn't it? The large FERA grants presently gave way to the WPA, CCC and NYA type of relief operation. The FSRC became the FSCC (Federal Surplus Commodities Corporation) with the word *relief* left out of the name. In this period, one would have to say that supporting prices to farmers was the primary objective. The surplus foods did go to families on relief; but the "needs" of producers almost wholly determined what foods were diverted. There are strong reasons for believing that pressures brought to bear on the administration too largely determined what products were purchased.

The method of distribution at this stage was through special depots set up in sections of the cities where relief families were most numerous. This was costly, and difficult to administer. Gluts of some food at any one depot might occur at any time. The retailers had never liked this form of competition. Finally a group of merchants in Nebraska figured out a method by which the distribution could be handled through stores. A conference was held in Washington late in 1938 at which the proposal was thoroughly considered. A month or two later it became, with some adaptation, the Stamp Plan. This, plus distribution through free school lunches, plus a limited amount of diversion of milk to relief clients at reduced prices, plus recently a little penny-a-glass milk distribution in schools, plus a continuing considerable amount of direct distribution through depots, makes up most of the present program for disposal outside the normal channels of trade.

With the taking over of this program wholly by agriculture, the financial support for it has had to come wholly from agricultural appropriations. The 30 percent of the customs receipts are automatically available for such use, except that it is possible to divert almost any amount of them to direct parity payments. For the year 1942, the customs receipts diverted to "disposal of surplus commodities" total $97,730,000. A supplemental appropriation of $125,150,000 was voted, making a total of $213,000,000, less reserve fund deductions. For 1943, the House bill now carries an estimate of $132,000,000 from the customs receipts, and no supplemental appropriation.

These data make an interesting contrast with those for other major parts of the agricultural programs:

| | 1942 | 1943 House bill, + or − |
|---|---|---|
| Surplus disposal | 213,000,000 | −81,000,000 |
| AAA | | |
| Conservation payments | 499,400,000 | −49,400,000 |
| Parity payments | 212,000,000 | (a) |
| Sugar Act | 47,960,000 | − 500,000 |
| Rural Rehabilitation | | |
| Direct appropriations | 70,500,000 | −40,200,000 |
| Loans (From RFC) | 120,000,000 | −50,000,000 |
| Soil Conservation Service | 25,600,000 | − 3,200,000 |

(a) Whatever is necessary, in addition to conservation payments, to bring the gross returns per pound or bushel up to parity.

The underlying theory upon which Congress has proceeded thus far is that the AAA, SCS and other similar programs are necessary to take care of the production programs of agriculture, but that the war will provide for the low-income urban as well as rural families. The experience of the year is very likely to demonstrate that such a theory is over-simplified. The needs for food distribution are likely to increase rather than decrease, even though relief for many of the present families can safely be discontinued. The rural families will need more assistance rather than less in order to increase proportionately their contribution to the agricultural war effort.[1]

The February 1942 summary of domestic distribution of foods through the SMA [2] shows over 8 million persons in family groups, including 976,000 in Puerto Rico and other island possessions, participating in the several programs and receiving during the month a total of 130,000 tons of foods, valued at $19,000,000. The monthly average for the 8 months ending February had been 146,000 tons.

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[1] The Senate liberalized several of these items. The Conference committee had not reported when this book went to press.

[2] Now AMA, for Agricultural Marketing Administration.

Direct distribution had reached 5.1 million persons in February with foods worth $4,200,000; the stamp program, 3.6 million persons, with foods worth $9,600,000 (blue stamps only); school lunches, 93,000 schools and 6.1 million children with foods worth $5,300,000. The penny milk program was operating in 8 areas and the relief milk program in 6 areas.

The principal foods distributed through direct distribution were cereals and flour, apples, beans, sweet potatoes, salt pork, and lard. The distribution to a family of 4 was $3.30 worth of food—$40 per year. A mere pittance, but no doubt meaning much for those receiving it.

The blue stamp distribution included the following foods principally: fresh vegetables, pork, cereals, eggs, butter and fruits. Per family of 4, these foods were valued at around $10, equal to $120 a year. The stamp program distribution in February covered 1,224 counties and 83 city areas, these containing nearly two-thirds of the national population. Only 66 percent of the persons certified as entitled to stamps were asking for them. The others are holding back in considerable part because they can "get by" without it, and they look upon it as a form of charity. This is in spite of the fact that in most cases the addition of more meat, butter, eggs, and vegetables, and fruits to their diets would considerably improve the health of their families and their own efficiency as workers.

The school lunch program has been increased 40 percent in the last year. The foods used, valued at $.86 per child in February, or 4.6 cents per meal, included dry skim and evaporated milk, eggs, oat and wheat cereal, corn meal, corn grits, flour, apples, grape fruit juice, prunes, dry beans, canned tomatoes, salt pork, lard and dehydrated soup.

Milk was being distributed during February to 140,000 school children in the 8 Northeast and Midwest cities—at the rate of 17 half-pints per child.

The AMA also has a small cotton stamp program, which reached 260,000 persons in February with $4.50 worth of cotton goods for a family of 4. Also around 55,000 mattresses and 70,000 comforters were distributed in the month.

Under the plan under which low-income cotton growers are able, in effect, to get back for use of their own families some of the cotton which they grow, cotton worth $17,200,000 had been distributed up to the end of February.

Accompanying this expansion of the diversion programs there came a series of reorganizations under the leadership of Mr. Milo Perkins. In the summer of 1940, the organization became known as the Surplus Marketing Administration, which name it still retains. Recently, however, the SMA has been combined with the Agricultural Marketing Service and the Commodities Exchange Administration into a large overhead organization called the Agricultural Marketing Administration, now under the direction of Mr. Roy Hendrickson. Paralleling this is an Agricultural Conservation and Adjustment Administration dealing with problems of agricultural production.

This set-up clearly does not provide a fully developed consumption adjustment program for agricultural products. If the agricultural program ever were to include consumption adjustment in full, it would begin by ascertaining the deficiencies in consumption of foods and agricultural fibres, determine the sums of money needed to supply the under-provided families with the required additional foods and fibres, secure an appropriation from Congress that would finance the provision of such a supply, and then set about organizing a production program that would bring forth the quantities of the particular products needed. There would be a very definite program of production adjustment, but its direction would be guided by the needs of a consumption adjustment program.

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Some of the farm organizations have taken a position opposed to the extension of the surplus purchase and diversion programs by the Department of Agriculture. They have feared that the funds appropriated for this purpose would prove to be in lieu of parity payments and other direct contributions to farmers. Their idea is that distribution of surplus foods to the unemployed and underemployed is a form of general relief which should come out of the public treasury and not be charged against agriculture. They admit that some addition to farm income may result from the stamp program, direct distribution and the other methods used, but are disposed to belittle these. In recent sessions of Congress, this part of the budget of the Department of Agriculture has therefore met with much hostility.

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Under such circumstances as the foregoing, the USDA has been obliged to consider carefully the nature of its purchase and disposal program. A careful review and analysis of it in the last several months by groups in the public service and out who are most familiar with the nature of the problem has led to some significant conclusions, which may be summarized as follows: In return for $170,000,000 spent before the end of the fiscal year 1940–41 upon the food part of the stamp program, upon direct distribution to families, and upon school lunches, the producers of farm products had received an addition of $150,000,000 to their income. This large fraction of the total, 88 percent of it, has been passed back to them in larger receipts for their farm products. In addition to this, the low-income consumers had had the full benefit of this amount of food.

Thus a contribution of $170,000,000 out of the federal treasury had given full value to the consumers and almost full value to the producers in addition. The same amount of money spent out of the federal treasury on parity payments to farmers would have resulted only in income to the producer recipients, except as the increased buying power because of the increased income would have been passed on to other elements in the population. But increased farmer buying power would have come in almost an equal amount from the food distribution program. The conclusion seems inescapable that the program of diversion of farm products to low-income families should be expanded.

As between the three methods, the school lunch program has benefited the producers by about one-fourth more than the actual outlay; direct distribution by about one-fifth less; and the stamp program by about one-tenth less. These values were the *immediate* ones—no allowance for the building up of consumption habits. The plan most worthwhile to expand, all things considered, would seem to be the school lunch program, until it reaches the point of free noonday lunches and free milk for all school children, needy or not, as a permanent part of the educational program along with free instruction and free textbooks. Such a program would cost around $100,000,000 a year.

The food stamp program should be expanded to the point of reaching at least twice the 7.3 million now being reached, at a cost of around $350,000,000 a year.

Direct distribution should be continued, but confined largely to emergency conditions. Still more limited use should be made of diversion to by-product or secondary uses.

The distribution of milk at reduced prices should also be expanded into a large number of cities large and small scattered over the country which have many families in the low-income brackets.

## CHAPTER XXII

# *WHEN THE GOVERNMENT BUYS*

This chapter will deal with only one phase of the problem of government buying of farm products, namely the effect of it upon prices. This buying can be done in such a way as to cause undue and unnecessary price rises and it can be done otherwise. The army and navy procurement officers have done their buying in peacetime mainly with the objective of getting supplies as cheaply as possible. The Department of Agriculture did most of its buying under FSRC and SMA with the almost opposite objective of making a small amount of buying raise the price as much as possible. The SMA programs were judged largely by how much a given amount of money contributed to higher prices and farm incomes. The question before us is how the war situation should change the objectives and methods both of the military procurement branches of government and of the Department of Agriculture. Our concern here is especially with the latter.

Obviously this question will need to be answered differently for the several types of buying; but a few general guiding principles can be laid down for all of them:

I. Prices of farm products do not generally need to be raised any higher at this time. The objective instead should be to keep them from rising above present levels.

II. Prices of particular products may need to be increased to cover additional costs of needed expansion; or subsidies may be granted instead.

III. Price-supporting action may sometimes be needed to insure the harvesting and conservation of perishable products. To illustrate, early cabbage glutted some Southern markets to such an extent this last winter that prices fell to $6 per ton and the growers could not afford to harvest them. The AMA stepped in with an offer of $12 per ton and moved the surpluses into direct distribution channels.

A classification of methods of buying is also needed:[1]

A. Competitive sealed bidding.
B. Buying in open public markets.
C. Negotiation—private sale.
D. Offers and acceptances—the government asks sellers to specify amounts they are ready to sell at what prices. The government then accepts what it pleases.
E. Offers to buy at prices named by the government.
F. Forward buying, or guaranteeing prices in advance of production.

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Competitive bidding of one form or another is still practiced by nearly all government agencies and is generally favored by the public servants who have to do the buying and by the rank and file of the people. Competitive bidding, however, takes on many forms in the varied uses to which it is now put. The D type of competitive bidding is more common than the A type in the buying of farm products. The AMA is now in the market almost continuously for some commodities to keep its school lunch and other programs going. Offers are being asked for week after week for butter, eggs, pork, flour, prunes and a considerable list of products. Sometimes the government states how much it wants, but more often not.

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[1] All of these methods have variants which are to be discussed presently.

Competitive bidding under these circumstances begins to follow other patterns of behavior. When the first bids were asked for on any product, they came in with a wide range from top to bottom. Commonly more was wanted than was offered at the lowest bids. No doubt many of the offers of small amounts at low prices were made to feel out the situation. Shortly the range of the bids narrowed, as one would expect. Then it narrowed some more, and then still more, until nearly all the bids any week were often at the same price. In fact, in such buying today it is the exception for part of the bids to be appreciably out of line with the others. No collusion was necessary for this to come about. It is just the way that competition tends to work when it is intelligent from a business standpoint.

Why not let it work that way? Because when a bidding market reaches that stage, the prices tend to rise. Some of the bidders take a chance on raising their bids just a trifle for a week or two, and if the government agency is not careful it finds itself going along with them. This is most likely to happen on a rising market when purchases are expanding, and results in a more rapid rise than is justified.

The practice of AMA under such circumstances is usually to accept all bids or none. If it decides that the bids are getting out of line with conditions of supply and demand, it simply rejects all of them, commonly letting the trade know the reasons for it in one way or another. This makes it highly necessary for the AMA to keep closely in touch with the market, to keep itself supplied with all the pertinent information, and to analyze this carefully from week to week.

In making a decision to accept or reject bids, the AMA may also take account of other factors. For example, if only three identical bids are received some week, and this is repeated the following week, there is a good chance that all will be rejected. This might be done even though the price was no higher—the situation could easily be one in which the prices should fall.

Some markets are too narrow at the outset for effective bidding. There are too few competing bidders. The general principle can be laid down that if a market is not purely competitive when a government starts buying in it, bidding is not likely to make it more so. If, for example, the market for evaporated milk were to be dominated by a few large firms, and had reached a stage common in industry where these no longer cut prices, but instead follow some one firm's lead and limit their competition to brand advertising, selling and the like—then any sealed bids that were turned in would be likely to fall into the same general pattern.

In a market which is not "orderly" in the above manner, an *occasional* request for bids stands a good chance of calling out some that are close to rock bottom. Often the government benefits from a considerable amount of sacrifice selling under such circumstances. It is this type of experience that in part has led to a general good opinion in which competitive bidding is held among government agencies.

The government buying agency is frequently handicapped in judging a set of bids because it does not have all the facts in hand. In many lines it has better information as to supplies, movements out of storage, and the like than most of the sellers—often than all of them. The trade may, in fact, have reached the point where it has come to rely upon the government to supply it with such facts.

On the demand side, the government will be the better informed as to Lend-Lease and army and navy prospects.

But when it comes to civilian demand, the trade has a distinct advantage. It has the "feel" of the market in a way that no outside public buying agency can get it. The government also is not likely to be sufficiently "on the inside" to know how the price-making process really works in the trade or industry in question.

There is also much to be learned about the best way to handle competitive bidding—whether to ask for large bids or small ones, whether or not to announce the quantity wanted, how closely to specify the grade and type wanted, and so forth. The army in peacetime has preferred small and frequent bids, and no doubt has obtained many lots at sacrifice prices on this basis. Such methods tend to be too cumbersome during a war. If the quantity wanted is not specified, the buying agency is free to take a little or a lot depending upon what it thinks of the bids. But it may need a great deal at times and get offers of only small amounts. Bids on large lots in some situations also tend to be a shade lower than on small ones. This is rarely true with farm products, however. Bidding has often resulted in only high offers because the specifications have designated particular grades and types that are unusually scarce, perhaps no longer produced in quantity. The army has erred in this way frequently in recent years. Obviously there is no one right way to conduct competitive bidding, and what is best one time may not be at another. It should be obvious that it calls for skilled operatives, more of them than were on hand when the war emergency arose.

The bids made for dairy products, eggs, pork and similar products, regularly each week, or in some cases twice a week, are upon forms which when accepted constitute a formal contract. This is also true of most of the bids made from time to time irregularly. Occasionally a need arises which is so urgent that telegraphic bids are requested.

The most serious weakness in competitive bidding appears in those cases in which the bidders must first go out into the trade or among producers and find out at what price some necessary raw materials or supplies will be provided. The same producer may be approached by a dozen different bidders. This creates the false appearance of a big increase in demand for those materials and causes their prices to rise.

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The government is handicapped at the outset when it goes into a public market to buy—especially at present after several years of buying for the purpose of supporting markets. The large buying that it may do for Lend-Lease and similar purposes has the same general effect. Nevertheless it is probably still true that a really skillful buyer even for the government can buy modest quantities of many products as advantageously in a public market as in any other way. He needs so to conduct himself as to make it obvious that he is not a large buyer.

Most of the negotiated buying of farm products is forced upon the government because the market is clearly not competitive. Public employees fear to buy on this basis—they may easily get worsted on a deal with a seller who is in a strong bargaining position, and come in for bitter chastisement from the public later. The time has come, however, when this chance will need to be taken more frequently; and ways will need to be developed for protecting the public servants so engaged and also of strengthening the bargaining position of the public buying agency. The government should not be at the mercy of corporations or firms, or groups of them, who owe their existence to special privileges granted by that same government.

The method of standing ready to accept whatever is offered currently at named prices is well suited to the uses to which it is now commonly put. Temporary and local gluts in supplies of perishable fruits and vegetables, eggs, poultry and other products, are bound to arise in spite of a great general need for more food products. To go into such markets and buy at prices that will induce harvesting and delivery in proper pack and in good condition is a highly commendable wartime policy.

But this procedure can also be used to boost prices unwisely, and has so been used on several conspicuous occasions since as far back as 1933. As used in surplus buying under Section 32, it has helped in some situations to keep more production in local markets than was needed. It could happen in 1942 in spite of the general need for expanded output.

The case for forward buying under proclamation prices has been pretty well stated in earlier chapters. The writer holds that this method of buying should be expanded during the war. For the time being, he would like to see it applied selectively and to minor rather than to major products. It could probably take the place of the AAA program for rice at once, and perhaps substitute for the Sugar Control Act. But the question of the level of the guaranteed price would at once come to the fore, and would need to be settled on a workable basis for these products before any more products were brought under a forward-buying plan.

Even with minor products, the danger is ever present of announcing proclamation prices that are higher than necessary to secure the desired output; or of announcing prices intended to induce immediate expansion of production when such expansion can come only after a while anyway. If the price named is too high in such cases, it induces more expansion than is wanted when the new output does finally appear. Mistakes of either of these types are definitely and needlessly inflationary in their efforts. As an example, serious question may be raised whether the 16-to-1 corn-hog ratio that prevailed last winter was not too high; as to whether the egg prices guaranteed will not induce more output than desired; likewise the fluid milk prices in some markets.

If obstacles stand in the way of needed expansion, the best way to handle it in wartime is to remove the obstacles so far as possible, rather than to bid up prices against these obstacles. For example, if a shortage of dry milk arises, loan some money to build new plants instead of raising prices and inducing private borrowing; or even build the plants and rent them to private operators. Of course, both of these methods are now being freely used.

* * * * *

One of the arguments for forward buying has wide significance. The proclamation prices ordinarily apply directly to farmers. This means that whatever prices the government guarantees will get back to the purchasers. When the government buys under competitive bids, this may not always be so. No doubt some of the rising bids during the past year were on products that left the original producer's hands months before at another level of prices. Some other year, of course, the trade may count upon doing the same thing, bid up at delivery time, and get fooled later. But year-in and year-out the trade has gained on the breaks. It is part of its business to do just this thing.

When bidding is done on the same product week after week, in contrast, the AMA publishes the prices at which contracts are closed each week. For commodities that are currently produced, like eggs and butter, any changes thus published are in good chance of being reflected back to the producers. The buying that is least likely to get reflected back to purchasers is that of small deals in the open market.

When the government buys directly from farmers, it may need to ask for bids on processing. In general, such bidding has been at low figures. The processors have lost all or part of their usual supplies to the government and if they are to operate as usual they must do it for the government. The processors do not like this arrangement, and have been known to go out and pay more than the guaranteed price to the producers in order to get control of the crop.

The policy of the War Production Board and the Department of Agriculture in buying farm produce have not altogether jibed thus far, the Board being inclined to contract with processors and the Department with farmers. These differences seem to be in process of adjustment.

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At this point, it should be mentioned that under the stamp program the government does no buying on its own account. The effect of its food distribution on prices must be like that of any step-up in demand—it is transmitted commonly from the retailers back through the jobbers, brokers, processors, and country buyers to the farmers. This is a long long route. However, those who have studied the operation of the stamp plan believe that in so far as the products are of the standard sorts moving in the usual manner through the channels of trade, the transmission is reasonably effective. This question becomes serious only in case a larger quantity of a product is produced and consumed as a result of the stamp plan program, in which case there should be a reduction in the margins taken by the trade. This question is likely to become very pressing later on.

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Any conclusions that any one might have from study of the experience in buying during this war thus far must be largely tentative. It is best instead to raise a number of questions that need to be considered carefully, such as the following:

1. Has the AMA reviewed as carefully as it should the need for adapting its buying methods to the fact that prices for most farm products now need to be kept from rising further?
2. Have the announced prices been influenced too much by the desire to get immediate response?
3. Is Lend-Lease buying tending to raise prices more than need be because influenced by the desire for immediate expansion?
4. Are the army and navy and the War Production Board sufficiently aware of the need for getting larger expansion by the actual producers of the raw materials of army and navy rations?
5. Has the buying of farm products for different uses been well enough coordinated?

* * * * *

Although definite answers to these questions are not possible at this stage, a few further facts and circumstances will help the reader in arriving at tentative judgments.

First, raising prices to producers to meet the extra costs of expanded output is not the only way of meeting the situation. If keeping price rises to an absolute minimum is the prime consideration, the alternative may be followed of paying subsidies directly to the producers, either on all that they produce, or upon additional acreage or output. The latter will induce more expansion at less cost, and is entirely feasible with many farm products now that the AAA has records of the past acreage and production of nearly all farms.

The subsidies can also be varied from area to area depending upon how much the additional costs will be and how important it is to shift production in the area.

Obviously this method will cost the government more money, and will ordinarily require in the end a somewhat heavier drain upon the taxpayers. But it will keep prices down to the general public and hold the cost of living in check, which may be very important considerations. One also has to take account of the need for distributing more food among relief and other low-income families as food prices rise. The milk price increases already granted bring this problem very much to the fore.

The British and Canadian governments are using both of these methods of meeting the extra costs of additional output. The Canadians have used the subsidy method rather freely. There has even been some political rivalry between the central and provincial governments as to which will grant the subsidies. In Ontario, for example, both have been paying small bonuses on dairy production.

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Also bearing on these questions is the circumstance that the division in the Department of Agriculture which is now doing the Lend-Lease and other buying has had several years of actual operational background for it, not to mention years of experience in studying the markets in question. Dr. E. W. Gaummitz, who has had immediate general direction of the buying activities in the last two years, has been an unusually able and well-informed operator in whom all parties involved have come to have great confidence.[1] His staff of competent assistants have learned the game day by day with him. A succession of three unusually competent public administrators have headed the division in which this work has been handled, Mr. J. W. Tapp, Mr. Milo Perkins, and now Mr. Roy Hendrickson.

* * * * *

Just how government buying and the General Maximum Price Regulation are to be operated together is not yet clear. If the March retail prices of all products for which support prices have been announced were high enough to cover the farm prices, no problem is raised on that score. If support prices come to be necessary for additional farm products, or the present prices prove not high enough, then either the retail maximum will need to be raised or subsidies provided. Various public statements indicate the latter.

Another situation that is likely to arise is that military buying will so deplete stocks of some items that rationing will be needed to prevent a sky-rocketing of prices. But the army and navy buying can easily boost the prices seriously before the rationing gets under way. The new ceilings can be used effectively to prevent this if the procurement officers will carefully observe them.

Before the end of 1942, a third or more of the actual buying will be outside of regular retail channels, most of it buying by some branch of the government. If this buying runs wild, then price control will surely fail.

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[1] Unfortunately for the domestic buying program, Dr. Gaummitz was taken over on May 1st by the Board of Economic Warfare to handle the buying in foreign markets.

The escalator arrangements in many government contracts—for non-agricultural items very largely—easily lend themselves to price boosting. The essential feature of the new price order is an attempt to force manufacturers, wholesalers and others to absorb some necessary cost increases by savings in other cost items. This is contrary to the characteristic operation of escalator contracts. Some hard work therefore lies ahead for the procurement officers and for the price administrators.

## CHAPTER XXIII

# *NOW THAT IT IS WARTIME*

The central question that is raised as we come to the final chapters of our analysis is simply this—how shall each of the three parties to the parity issue, Agriculture, Labor and Capital, conduct themselves now that the nation is actively at war?

As a basis for considering this question, we ought first to see how each has fared specifically since the war began. The data on the income of each of these three are now available and separable for the whole year of 1941 in terms of Income Produced. The comparisons with the year 1939, the last full year before the war had any important effect on our economy, are as follows: [1]

*Income Produced*
(Millions)

| | Annual | | | Percentage increase: | |
|---|---|---|---|---|---|
| | 1939 | 1940 | 1941 | 1940–41 | 1939–41 |
| Agriculture | $ 5,230 | $ 5,315 | $ 7,462 | 40 | 43 |
| Labor | 47,374 | 51,921 | 63,801 | 23 | 35 |
| Capital | 18,167 | 19,949 | 23,437 | 17 | 29 |

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[1] Survey of Current Business, U. S. Department of Commerce, and Release of March 8, 1942. Labor income is represented here, as in Chapter V, by total "salaries and wages," including workmen's compensation payments, social security payments and work relief payments; Capital, by the net income of incorporated business and of unincorporated business except Agriculture, plus net interest and net rents and royalties except rents and government payments received by farmer landlords; Agriculture by net income of farm operators plus wages of farm laborers plus a small amount of dividends and interest, plus rents and government payments received by farmer landlords.

The percentage increases in Income Produced have been clearly the largest for Agriculture. This is true even though government payments to Agriculture in 1941 were only $585,000,000 as compared with $807,000,000 in 1939, and this reduced the amount of the increase. Agricultural income excluding government payments increased 56 percent from 1939 to 1941. Agriculture made virtually all of its gains in the latter year of the two, contrasted with about two-thirds for Labor and Capital.

There is nothing in these particular figures to justify any claim put forward by Agriculture that it has not shared equitably in the war gains as such. Agricultural spokesmen, however, frequently make the point that Agriculture started from a lower level in 1939 than did Labor and Capital—the 1939 parity ratio was only 77. A comparison with 1929 such as in the accompanying table covers this point satisfactorily, since in that year the ratio of prices paid by farmers to prices received was 98, on the 1910–14 base, and the ratio of per-capita farm to non-farm income was 97. Almost an exact parity situation. Over the whole period from 1929 to 1941, agricultural income gained 9 percent, labor 23, and capital −7. Following are these figures in detail. Labor is now definitely in the superior position relative to the 1910–14 parity standard; but we have shown that such a standard is open to question.

*Income Produced—Percentage Change*

| | 1929–39 | 1929–41 | 1939–41 |
|---|---|---|---|
| Agriculture | −24 | 9 | 43 |
| Labor | − 9 | 23 | 35 |
| Capital | −28 | −7 | 29 |

* * * * *

These data are not strictly up to the minute. The only all-inclusive data released by the Department of Commerce currently are in terms of Income Payments. As published, these data differ from the Income Produced data in that business savings are not included in Income Payments and in that rents arising in Agriculture are classified as rents and royalties and included with Capital in the annual estimates of Income Produced, and are included in Agriculture in the monthly estimates of Income Payments. Current data supplied by the Department of Commerce have made it possible to include business savings in Capital and otherwise make the monthly data closely comparable with the annual; likewise to transfer wages of farm labor to Agriculture from Labor, and farm operators' earnings from Capital to Agriculture. The estimates resulting, given in the accompanying table, show that Agriculture has run way ahead of Labor in the more recent months, especially in the four months of 1941–42 as contrasted with those of 1940–41. It has run even more ahead of Capital. Its gain is enough to make up and much more for any disparity there was in 1939 even measured on the 1910–14 base.

*Income Payments—Four Months, October to January* [1]
(Millions)

| | | Annual | | | |
|---|---|---|---|---|---|
| | 1939–40 | 1940–41 | 1941–42 | Percentage increase: | |
| | | | | 1940–41 | 1939–41 |
| Agriculture | $ 2,500 | $ 2,640 | $ 3,900 | 48 | 56 |
| Labor | 15,320 | 16,934 | 19,862 | 11 | 30 |
| Capital | 8,797 | 9,145 | 11,572 | 4 | 32 |

* * * * *

The foregoing statistics of changes in earnings of the three groups cannot be adequately interpreted without giving some attention to the volume components—volume of employment of labor and volume of agricultural output. As stated earlier, the ideal program for winning the war would call for no boom in either prices or wages, but instead increasing the total national income and hence the individual per capita income by increasing the output per worker. The total earnings of Labor would increase because many unemployed would get jobs, and the formerly employed would be laid off less and work more hours per week. The total income of Agriculture would increase because more farm products would be sold per farm and per person working on farms. The production goal program for 1942 calls for 19 percent more farm output than the 1935–39 average. The 1943 output will need to be stepped up considerably more.

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[1] Income Payments, as currently published, but with business savings added to Capital and rents received by non-farmer landlords included with Capital rather than Agriculture.

Unfortunately the data are too incomplete for anything except the roughest kind of breakdown into price and volume of the foregoing income data. The index numbers published by the Department of Agriculture indicate a 6 percent increase in physical volume in 1939–41, and a 32 percent increase in prices. These multiplied together according to the old formula of the arithmetic books (Price × Quantity = Value; 106 × 132 = 141) gives an increase in value of product of 41 percent, government payments of course being excluded. This 41 percent is almost the same as reported for increase in cash farm income in 1939–41. The increase in net farm income was 56 percent. Prices received rose more than prices paid in these two years.

| | Price increase | Volume increase | Income increase |
|---|---|---|---|
| Agriculture | 32 | 6 | 41 |
| Labor | 12 | 20 | 35 |
| Capital | 6 | 25 | 29 |

The computation for Labor is more difficult. The hourly earnings figure published by the Bureau of Labor Statistics represents only factory labor, and the 35 percent increase in income is for all labor. Moreover, as already explained, the factories reporting have better than average wage policies.[1] The figure for the 1939–41 increase in hourly earnings that the author has decided to use after consultation with several specialists in wage statistics is 12 percent. This gives a volume increase factor of 20.

Not long ago Mr. Green and Mr. Murray of the two labor fronts were credited in the press with insisting that wages had risen less than the cost of living, and therefore should be increased. Clearly no statement concerning the gains of labor should be limited to wage rates only. A 20-percent increase in volume of employment is more important for the *labor force as a whole* than a 12-percent increase in rates; *and it surely is more in line with sound procedure for winning the war.*

Agriculture's failure to gain more than 6 percent in volume in these two years now appears in retrospect to have been a mistake. It would have been much better for the farm people of the country and for the nation as a whole if agriculture's 41-percent gain in value of product could have been compounded out of a 20-percent increase in volume and a 20-percent increase in prices. We can now be much wiser about a major policy issue of this sort than we were in 1940 or even in 1941. But having made the mistake twice before, we can be blamed severely if we do not turn from our old ways sharply in the present.

The figures for Capital mean only this: the best available index of volume of manufacturing and trade, that of the Federal Reserve Board, reports a 25-percent increase between 1939 and 1941. If that can safely be taken as a volume measure, then the rate of return on this enlarged volume increased only 6 percent.

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[1] The hourly earnings figure, being derived by dividing total factory payrolls by total man-hours worked, includes extra pay for overtime; also the effect of any increase in proportion of workers getting the higher wages. There has been much of both of these in the past two years. For the purpose in hand of measuring changes in physical volume of work done, hourly earnings should be used without any adjustment for these two effects.

* * * * *

The gains of the recent four months in Income Payments over those of comparable months in 1939–40 and 1940–41, when separated in the same manner into price and volume increase, become as follows:

| | Price increase | Volume increase | Value increase |
|---|---|---|---|
| Agriculture | 46 | 7 | 56 |
| Labor | 19 | 12 | 30 |
| Capital | 13 | 17 | 32 |

Agriculture's volume thus shows little sign of advance in these more recent months. One would have expected the rate of marketing at least to have increased under Lend-Lease and other war-induced demands. With volume expanding slowly in the face of these demands, a rapid increase in the prices of farm products has followed. In twelve months from January 1941 to January 1942, the index of prices received by farmers rose from 103 to 149 or 45 percent.

Chart 1 in the chapter on Keeping Inflation under Rein showed this situation very clearly, it will be remembered—farm product prices running ahead of the schedule of price advances set by the last war, with non-agricultural prices advancing much less rapidly.

Volume of employment for Labor was only 12 percent greater in the last four months reported in the table than two years before. Priorities caused idleness in some plants in the latter half of 1941. But wage rates were rising rapidly in spite of this, the pace being set by conditions in war types of industries which even at that time were short of skilled workers.

Approximate although this analysis of price and volume is, one can safely conclude from it that as compared with 1939, before the war activities got under way, returns to Capital have on the whole increased about the same as returns to Labor; and returns to Agriculture clearly the most of the three. Agriculture has expanded its volume least, and Capital the most. The returns to Capital per unit of volume have been the least of the three.

The returns to Capital for 1941, it should be recalled, were 7 percent less than those for 1929, as compared with 23 percent more for Labor and 9 percent more for Agriculture. But 1929 was a very high point for Capital returns, not at all closely approached since, as was demonstrated by Chart V in Chapter VIII. The phenomenal decline of interest rates since 1929 has been no doubt the largest single factor in this.

* * * * *

One more step is needed to complete the comparison of the war gains of Agriculture and Labor—both need to be reduced to a "real" basis by comparing them with indexes of the prices of things bought with the incomes. The usual comparisons, in terms simply of prices and wages, are presented in the first of the accompanying tables. The reader will note that the index numbers for Agriculture and Labor are upon two different bases. He therefore should consider only the amount of increase in real prices since 1939—which for Agriculture is 25 points, or 32 percent, up to January 1942; and for Labor is 7 points, or 7 percent. Agriculture gained 17 points within the year 1941, Labor 9 points.

*Index Numbers of Real Prices of Farm Products and Real Wages of Manufacturing*

| | Agriculture (1909–14 = 100) | | | Labor (1935–39 = 100) | | |
|---|---|---|---|---|---|---|
| | Prices Received | Prices Paid | Real Prices | Hourly Wages | Cost of Living | Real Wages |
| 1939 | 93 | 121 | 77 | 106 | 99 | 107 |
| 1940 | 98 | 123 | 80 | 107 | 100 | 107 |
| 1941 | 122 | 133 | 92 | 118 | 105 | 112 |
| Jan. 1941 | 104 | 123 | 85 | 110 | 105 | 105 |
| July 1941 | 125 | 130 | 97 | 119 | 105 | 113 |
| Jan. 1942 | 149 | 146 | 102 | 128 | 112 | 114 |
| Feb. 1942 | 145 | 147 | 99 | 128 | 113 | 113 |
| Mar. 1942 | 146 | 148 | 99 | | 114 | |

A comparison in which volume of agricultural output and volume of employment are combined with prices and wages to give full income and earnings, such as presented in the second table, much more nearly tells the whole story. Note that here the series have all been computed as percentages

*Index Numbers of Real Agricultural Income and of Real Labor Earnings* [1]

(1939=100)

| | Agriculture | | | Labor | | |
|---|---|---|---|---|---|---|
| | Money Income | Prices paid | Real income | Money earnings | Cost of living | Real earnings |
| 1939 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1940 | 109 | 102 | 107 | 108 | 101 | 107 |
| 1941 | 141 | 110 | 129 | 131 | 106 | 123 |
| Jan. 1941 | 121 | 102 | 119 | 119 | 106 | 112 |
| July 1941 | 138 | 107 | 128 | 133 | 106 | 125 |
| Jan. 1942 | 184 | 121 | 152 | 146 | 113 | 129 |
| Feb. 1942 | 178 | 121 | 146 | 154 [2] | 114 | 135 [3] |
| Mar. 1942 | 176 | 122 | 144 | 156 [2] | | 135 [3] |

[1] Cash income from farm marketing is here taken as a measure of Agricultural income, and factory payrolls as a measure of Labor income.

[2] The February and March figures are in terms of a new index series released to date only for 1942. It was 6 points higher than the old one for January 1942.

[3] In terms of the new series for money earnings.

of 1939 so as to make comparisons easy. The increase in real income of agriculture up to January 1942 was 52 percent as compared with 29 percent for labor.

Even conceding that in 1939 Agriculture was at some disparity with Labor, this was more than wiped out by January 1942. No case whatever can be made for any general increase in prices of farm products beyond present levels, provided no general increase takes place in the general price level and with it in the cost of goods which farmers buy.

Likewise no case whatever can be made for any general increase in wages, again providing that the price level and the cost of living do not rise. The contentions of some labor leaders that wages have not risen as much as the cost of living is without foundation. It could be true for workers in some small industries making civilian goods only and well isolated from the general labor market, and in some parts of trade as distinguished from industry, but not for labor generally, and certainly not for union labor employed in defense industries.

* * * * *

If Agriculture and Labor have gained from the war thus far, there is every reason to believe that they will gain more in the future; and that they can do this with no increase in prices or wages. The increase in agricultural output required for maintaining our own fighting forces in training camps and in the field plus the rations and clothing which this nation will need to help provide for our allies, will tax our farms to the utmost. They would have raised agricultural revenues by 12 to 15 percent over their 1939 levels by the end of 1942, and by at least 16 to 20 percent by the end of 1943, without any price rises whatever. Putting on top of this volume increase the price increase of 46 percent in current money terms,[1] and 32 percent in real money terms, that had already taken place by January 1942, will give agriculture an income of around 65 percent above 1939 levels in 1942 in current money terms, and of 50 percent in real money terms. For 1943, the parallel estimates will be 70 percent and 55 percent.

These increases for agriculture include the wages paid to laborers in every case. Only if the payments to farm labor are higher than the 1939 payments by more than the 65 percent in 1942 and 70 percent in 1943 will the net returns to the operators be less than this. The total payments to farm labor will be affected by a reduction in the amount of labor employed as well as by any increase in wage rates that occurs.

A point of some significance is that the workers who leave farms for industry jobs will be getting incomes that were not received by the same group before, that will be an increase in income for the total group that was on farms before they left. For them individually, the new incomes will probably be larger than the old; and agriculture as a whole will have benefited from the transfer of some of its surplus population to the cities.

Industrial output is likely to expand appreciably more than agricultural output; and all of it will need labor. Employment for the total non-agricultural labor force should increase in volume within the year enough more to raise the 12 percent which had already occurred by January 1942 to a figure of around 20 to 25 percent; and for 1943, the average employment may run 5 to 10 points still higher. These increases in volume combined with the increases in wages rate that had already occurred since 1939—nearly 20 percent in manufacturing[1]—will give Labor an income in

[1] January 1940 to January 1942.

1942 that is 45 to 50 percent higher than that of 1939 in current money terms, and 35 to 40 percent higher in real money terms. For 1943, the parallel figures will be 55 to 60 and 45 to 50.

These estimates for Labor assume no further increase beyond the January 1942 level in the cost of living the same as did those for Agriculture. The cost of living index has been rising about one point a month since January, but wage increases have been keeping up with it as have farm prices.[1]

Perhaps it needs to be pointed out that some of these increases in total Labor incomes will have been earned by workers who have transferred from Agriculture.

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No attempt has been made to convert the earnings of Capital to a "real" basis. There are no index numbers of the prices paid by enterprisers and interest and rent receivers for the things they buy. If a general cost of living index were applied, the increase in money income of 25 percent between the last months of 1939 and 1942 would have been reduced to 11 percent. What it will be in 1942 and 1943 depends in considerable measure upon the new tax measures. The prospects for much expansion of it are not very rosy.

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The analysis thus far in the chapter has dealt only with all Agriculture, all Labor, and all Capital. Within each of these aggregates are groups that have been injured while the rest have gained. Priorities have already robbed several million of men and women of their former jobs in whole or in part. Many thousand of small enterprisers have already had to close their shops or stores. More millions of wage earners and shopkeepers have suffered because of the 13 percent rise in the cost of living and little or no increase in their earnings. Likewise several hundred thousand of fixed salary receivers. Fewer in agriculture have been hurt in this way than in the rest of society. Nearly all farm families have had enough rise in income since 1939 to offset the rise in cost of living. Even though no increase in cotton growing and wheat growing has been needed, the cotton and wheat farmers have had good increases in income.

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[1] The parity ratio was 99 in April and 100 in May.

The problem of dealing with these groups and individuals who have been injured by the war program is outside the province of this book. It is mentioned here mainly because some one is always pointing at them and saying: See there! your figures are all wrong. The public agencies responsible for the war program must not overlook these disadvantaged groups. Keeping the cost of living from rising is one way to do it. Expanding the food disposal program is another. These methods will reach the lower strata of the disadvantaged. The taxation program can be arranged so as to offset some of the injury to the fixed salary receivers. Perhaps in wartime the principle of increase in earnings and income after the war begins should be recognized as well as the absolute level of income.

CHAPTER XXIV

## *PARITY, PLEASE*

*That "original and excellent objective . . . parity for the farmers," said Mr. Roosevelt to Congress on April 27. Let it "be restored."*

*He was of course thinking of Parity as written in the law in terms of 1910–14 as a standard.*

*Prices of farm products have measured up to this standard since last autumn. But now that farmers have it, the Farm Bloc is not satisfied and has used its political position to have ceilings set in the Price Control Act which are at 110 to 120 percent of such Parity. These ceilings have already been reached by part of the farm output and will be reached shortly by much of the remainder unless Mr. Roosevelt's request is granted.*

*Increases in farm prices above Parity have already contributed importantly to the rising cost of living and will be the major cause of further increases that may occur in the next year. These rises in the cost of living become the principal cause of wage increases, which in turn add to the cost of living, and thence to the prices paid by farmers. Parity prices rose 4 points between February 15 and April 15 because the index numbers of prices paid by farmers rose from 147 to 151. Even with ceilings on farm prices set at only 100 percent of Parity, prices and the cost of living and wages can spiral upward alarmingly. Add 10 percent to the Parity ceiling and the spiraling effect is magnified—not simply by addition but by multiplication.*

*Still that wilful and entrenched group of congressmen and farm* *organization leaders known as the Farm Bloc refuses to grant President Roosevelt's simple request.*

* * * * *

In Chapters II to XXII of this book, the author has undertaken to explore all the reasons why the Farm Bloc may rightfully ask for 110 percent or more of parity, the various aspects of the Parity standard itself and possible alternatives for it, the consequences to agriculture and the nation of the inflation that will ensue if farm prices are not kept in line, and finally the problem of methods of control to prevent inflation. The materials and analysis presented should enable the reader to form his own judgments as to the merit in the Farm Bloc's position and in the President's, and as to what should be the policy and practice of our government in matters relating to Parity and price control. The following brief summary paragraphs may assist the reader in arriving at such judgments.

A review of changes in the condition of Agriculture since 1910 shows that it expanded 31 percent in the 1910–40 decades, but failed 8 percent in keeping up with the growth of population. The difference is accounted for by a decline in agricultural exports. This decline was in part induced by the country's high tariff policy and in some measure by conscious efforts to restrict output of export products in the 30's. The production control program has brought about some shifts in acreage between crops, but has had very little effect on total output.

In the 1910–20 decade, Agriculture gained at the expense of Labor; in the next decade, the Parity balance was tipped slightly toward Labor; and in the decade of the 30's, very definitely so. If one accepts 1910–14 as a suitable basing point, Agriculture in the year 1940 was below par by 17 percent in terms of prices, by 6 percent in terms of income per capita if government payments are included, and by 17 percent excluding such payments. These deficiencies, however, are no greater than those of Labor in 1910–14. The Parity balance was tipped toward Labor no more in 1940 then it had been against it in 1910–14.

Until 1930, the returns to capital and the enterprisers, in this book called, in brief, returns to Capital, kept well up with the growth in national income and increased conspicuously per enterpriser. This growth continued vigorously in the 20's, at a time when the capital structure of Agriculture was breaking down as an aftermath of the 1917–20 land boom. From 1930 to 1940, the returns to Capital were much reduced, in any relative sense, mainly because of the phenomenal fall in interest rates. The capital structure of agriculture improved much after 1933, but as late as 1940, farm real estate values were still 16 percent below 1912–14 levels.

Proper interpretation of this last fact calls for the introduction of two points not mentioned earlier. The first is that the land values of 1912–14 included a good deal of capitalization of anticipated increase in them induced by a current rapid rise in the general price level. The second is that the general standard of living of farm families has risen greatly since 1912–14, as much relatively as has the standard of living of urban families. Back in 1910, farm families were doing without many things that city folks had in order to pay off their mortgages. The automobile, telephone, radio and daily newspaper, even though two or three millions of farm families cannot afford them, have greatly changed this situation. Millions of farm boys and girls are now going to high school even though the farm mortgage is not redeemed. This change has increased the ratio of mortgage debt to value of farms both by keeping down payments on the principal of mortgages and by keeping land values down. It has had a surprisingly small effect in increasing the amount of tenancy. In interpreting the 1940 level of land values, one must therefore take account of the fact that the Capital structure of agriculture was healthier then than it was in 1912–14. There was not as much "water" in it, and not so much of capitalized inadequacies in rural living.

Taking 1939, before the present war began to have its effects, as a basing point from which to measure the relative gains of Agriculture, Labor and Capital, both Labor and Capital have gained greatly in real incomes as well as in money income. The comparison in terms of real incomes is 42 percent for Agriculture and 35 percent for Labor up to January 1942. The promise for the year 1942 as a whole, assuming no further price and wage rises, is 50 percent above 1939 for Agriculture and 40 percent for Labor; and for 1943, 55 percent for Agriculture and 45 for Labor. Of course if Congress were to pass a tax law that would really take hold down to the $2000 level, some of these incomes would be converted into direct war effort.

The writer knows a particular Congressman who when confronted with the last set of figures will say: "Agriculture ought to be getting larger gains than this. Think of all the years since 1930 when the farmers haven't been getting their share of the national income. This is now their chance to make up for those years, and about the only chance they are likely to get." One proper answer to him is to point out that agriculture's disadvantage in the 30's was no greater than its advantage over Labor in the 1910–20 years, and that the two started together in 1939 from about the same scratch line. Another answer is that the Parity balance will never be equalized by putting too much first in one scale pan and then in the other.

As for Capital's gains since 1939, taking them *in the aggregate* and *after deduction for taxes*, they have been distinctly less than Agriculture's and Labor's; and this promises to be still more true in 1942 and 1943. Many individual corporations have made large gains from the war program, but returns to the great rank and file of investors still reflect the prevailing low rates of interest.

* * * * *

Conclusions about Parity such as the foregoing accept the experience of history as their sanction. They say, in effect, that over the 72 years, or 40 years, shown on the different charts, this is the way in which Agriculture and Labor and Capital have on the average divided the social income between them. And in this particular period, Agriculture is out-of-line upward, or downward, as the case may be, with respect to this average. The author does not consider history a sufficient sanction in such a matter, and holds to the judgment that Agriculture during the whole 72 years has been underpaid relative to both Labor and Capital. *But the remedies for such a long-standing disparity must be of a fundamental nature, and cannot be successfully instituted with a major war in progress.*

* * * * *

The series of six chapters from X on make clear that any parity standard in terms of one base period will make a poor adjustment between commodities and even poorer between regions and agricultural income groups; and show how this circumstance has caused conflict within agriculture and led to increasing departures from the standard, until today one must question whether it may not soon be abandoned altogether. Some reasonable alternative parity standards are offered, but none of them is as simple as George Peek's original conception of "fair exchange value." A really workable parity standard must be flexible enough in its application to take account of changing conditions of production and consumption of the various farm products. If it is, it sets up a series of prices and incomes for the different prices and regions that is not far out of line with "necessary prices," that is, the prices necessary to call forth the desired supply. The "proclamation" or "support" prices that have been announced for soybeans, peanuts and ten other products are all necessary prices. The chapter on Scarcity vs. Abundance makes evident that almost any attempt on the part of agriculture to "hold up the consumers" by curtailing agricultural output will defeat its own ends within a very few years. The exceptions to this general conclusion are few and mostly unimportant.

* * * * *

*A final series of chapters deals directly with the problem of inflation and price control and the relation of parity and above-parity prices to it. The conclusion is reached that attempts merely to slow down the rate of inflation are likely to fail. The general price freeze of April 28 is therefore right in its objectives. But one must seriously doubt whether its methods of operation will be adequate, especially so long as prices of farm products are largely free to rise to 110 percent of parity or more, and wages are subject to no more control than that afforded by the War Labor Board. Even with these controls established and with priorities and rationing as supplementary aids, it is doubtful if direct price control can prevent inflation unless positive provision is made for absorbing the increased income of the rank and file of the people in taxes and savings.*

*If inflation does continue on the course it followed in the last war,* *agriculture will be severely afflicted by it. If we may judge by the post-war histories we know best—those of the Napoleonic wars, the Civil War and the World War—agriculture will go through another deflation longer and more severe than that experienced by the rest of the economy. Land values have already started on their inflationary course. They will rise dangerously even with no further rise in prices, unless agricultural earnings can be converted promptly into war bonds or used to pay off existing debt.*

* * * * *

*Few would not agree with President Roosevelt that the objective of parity for the farmers is excellent. Most economists, even, would say that the essential principle of parity is sound. This essential principle is that at any given time there is a ratio between the incomes of different groups in society, and accompanying prices, which on the one hand represents equal returns for equal effort, and on the other, a balanced allocation of effort and resources in different lines of production. Whenever incomes and prices, and distribution of productive effort, become unbalanced in this sense, then society as a whole is the worse for it; but especially those who are at the wrong end of the unequal. It becomes one of the major objectives of economic statesmanship to readjust such unbalances; and the groups most adversely affected are only rendering a service to their fellowmen when they assume a natural leadership in such an effort.*

*But if true parity in this sense is to be attained, it must be measured in some other way than in terms of the purchasing-power ratios of a period as distant as 1910–14. Indeed, it is doubtful if it can be measured inflexibly in terms of any period. Also any parity standard that is workable except in the short pull must use an income instead of a price measure, and a net income instead of a gross income measure, in order to take account of changing costs as well as prices.*

Not long since, a highly respected fellow agricultural economist at a public gathering referred to the whole idea of parity as "vicious." Defined and applied as parity has been increasingly in the last few years, not many would differ with him. Possibly in our kind of political society, no better application of the principle is to be expected. (If this were so, it would not be the first essentially sound social idea that has not stood up under trial.)

*The issue at hand is so clear that it can almost serve as a definitive test case. All that the President is asking is a return to 100 percent of a parity standard that has been written and rewritten to meet the wishes of the various commodity groups. Very little that any of them has asked has not been incorporated in it. Farm prices have been at the 1910–14 parity level since last fall. Moreover, that level is unduly high as judged by historical tests. Not only farm prices, but agricultural income, are now farther above 1939–40 levels than are labor and capital incomes. If the agricultural leadership will not accept as liberal a parity situation as this, can it be expected to accept any kind of parity that a sovereign nation in decent self-respect can grant to any group of its citizens?*

We are told that the reason the Farm Bloc does not grant the President's humble request is that he has not asked for a ceiling on wages as well as on prices; and that the Farm Bloc would rally to the support of a bill that included both. Perhaps it would. *It surely should have a chance to do so.* To be consistent, of course, the wage ceiling bill must also be written in terms of 110 percent of parity, on whatever base period will be most favorable to labor—let us say, 1935–39, such as used for tobacco. What would happen to the cost-of-living then?

The President's April message also contained the following paragraph:

> "It would be equally harmful to the process of keeping down the cost of living if any law were passed preventing the Govern-

> ment from selling any of its own surplus farm commodities at the market price. As a national policy, the ceiling on farm products—in other words, the maximum prices to be received by the producers of these products—should be set at parity."

Yet the Farm Bloc is still holding firm on its bill to prohibit such sales below parity. And this is in spite of the fact that Congress and the President have already agreed that parity payments will be available to make up any differences between parity prices on wheat, cotton, corn and tobacco and their market prices plus AAA conservation payments.

Secretary Wickard's statement in support of the President's message was as follows:

> "I am in full accord with the President's message to Congress yesterday. He has mapped out a comprehensive program which should arrest increases in the cost of living.
>
> "Farmers have everything to gain and nothing to lose by such a program. Every farmer who farmed during and after the last war remembers the disastrous results which followed the upward spiraling of prices during the war. Farmers will be particularly pleased to know that retail and wholesale prices are to be controlled before further advances occur in the cost of items which they must purchase for their homes and their farms. Farmers will be glad to see the Price Control Act changed so that the general level of farm prices will not advance beyond parity because they have accepted parity as being fair in principle. The great majority of them have not favored restrictions on the sale of government-owned stocks of farm products, and now I am sure will be pleased to see these restrictions removed. In my opinion, farmers will give the President's program their full support."

This statement is especially significant because Secretary Wickard supported 110 percent of parity in the summer and fall, even to the extent of coming into conflict with Mr. Henderson over it.

* * * * *

*One constantly hears talk these days of sacrifices necessary to win the war. Sacrifices indeed there are and will be, but they will be mainly of a very personal sort—as personal as one's life. Economic sacrifices, from the war itself? Yes, for a few millions of individuals for whom the direction of the war effort runs contrary to what they have been doing—for manufacturers and their employees whose civilian products the war cannot afford, for building contractors with no homes to build, for merchants and salesman with no goods to sell. But for the rank and file of farmers and wage earners, the war has entailed no pecuniary losses thus far, and will entail none. Instead, they have already reaped a sizable harvest from the war, and stand in prospect of reaping larger ones. The problem confronting the war administrators is not that of distributing war sacrifices between economic groups, but instead that of keeping them from cashing in unequally on the war gains.*

*Each week the truth of the foregoing is becoming more evident to the great middle class who hold the balance of political power, and to the ordinary workingman and farmer. The human sacrifices that they have already begun to make, their daily contributions to the war effort in civilian defense, in discomforts of travel, and in the petty annoyances of rationing, and by no means least, the mounting burden of their taxes, will soon or late stir this middle class to revolt against any forms of selfish group leadership, in Congress or out. Most farmers and wage earners will be stirred by these same experiences and will react in the same way.*

It is the unanimous verdict of all the polls, and judgment of those who conduct the polls, that on all matters pertaining to the conduct of the war, the people are far out in front of their government. At the extreme of backwardness are the leaders of farm and labor and similar organizations, next come the congressmen, then the press, then the bureaucrats, then the President, and at the head of the procession the great body of men and women who are making the real human sacrifices to win the war. Letters to congressmen and to the press are mostly written by persons with special interests at stake, and in four cases out of five are contrary to what the electorate wants and how it will vote. The public will is non-vocal. It expresses itself only in action and in secret ballots. The public will is for all-out war effort, all-out production, and abolishing all restrictions on output. It is against all grasping for economic gains and special advantage from the war, and against inflation. It is ready for higher taxes, rationing and whatever sacrifices are genuinely required. It has an uncanny sense for the hypocrisy in the impassioned utterances of those pleaders who do not see how the war can be won without preserving or promoting their special interests—who call out in Congress and at public meetings, How can you expect to win the war without organized labor? or without the merchants? or without the advertisers? or without the movies? or without parity prices for cotton?

It is more than possible that within a year an aroused public will wipe the slate clean of all parities and restrictions on agricultural production. For some of the Farm Bloc congressmen, the dying words of the old Northumberland farmer may prove a prophesy of their political decease, the deathwatch chant of which will be, "Parity, Parity, Parity—that's what the farmers need."

# *FOREWORD TO AFTER THE WAR*

At some stage in the progress of the war, our people must begin to give much of their thinking to what is to follow at the end of it. If they do not, the war effort will be as largely futile as was the last war effort. When we look back to the days of peacemaking at Versailles, only horrible forebodings ensue. Out of those months so full of hope for the world came the worst peace that mankind has written—a peace that set the stage for nineteen years of bitter economic and political warfare, ending with the new and more awful holocaust of today. Regardless of the nature of the victory in the present war, Europe, the British Empire and the United States, with scores of other nations in less important roles, will be faced by a situation as fateful as that of the Armistice months of 1919. The need for wise political and economic statesmanship will be the greatest ever confronting the world. The farm organizations of the United States, although they did not help write the Treaty of Versailles, were as much responsible as any other one group for the mistakes in our national policy that followed after. This time they will be responsible even for the mistakes made in writing the peace treaties; and they will be highly responsible for the conduct of our public affairs afterwards.

Without statesmanship in its public affairs a democratic nation cannot survive. The essence of statesmanship is putting the common good above private or group or sectional interest; setting broad and persistent gains above narrow and short-sighted ones; and recognizing that in many situations what seems like group advantage is not so in the end after all. Some discouraged citizens, and even some professors of government, tell us these days that the public interest is a myth; that public policy is merely the net result of having a lot of group interests each try to make government serve its particular ends—in other words, that the public interest is what comes out at the end of a cat-and-dog fight between purely selfish interests. Now it would be blind and stupid not to recognize that much public action today is just as selfish as that. But unless there is commonly weighed into the balance along with selfish concern a strong measure of the general public good, then representative government fails. It has failed in this way time and time again. But to let it fail this time might set back the hands of progress toward Human Freedom by fifty or a hundred years. At the worst, none of our children even in this America might live to see again a measure of genuine freedom such as we have experienced in recent decades; and as for the Old World, it might take several generations for its people to beat their way back through the jungle to light and liberty again.

* * * * *

It is not within the province of this book to discuss the problems of the post-war years. The few pages that follow are included only for the backlight they throw on the years just ahead. Needless to state, this light must be dim and wavering. Too much about the ending of the war is conjectural.

If the war lasts through 1944, as seems to be the basis upon which planning is now being done, some large changes will have taken place in our agriculture. The draft of manpower for the armed forces, plus the mobilization of civilian manpower for war production, will have drained away most of the surplus labor in our regions of rural congestion and underemployment. Farm labor will have become so scarce that much land now farmed by hand in the low-income areas will be worked by machine power. The machinery industries will by that time have the capacity to produce the needed equipment. The incomes of the farmers will have been high enough to enable them to buy the machines in spite of taxes and war bonds. If they do not get the machines while the war is on, they will shortly after it ends, for the nation will have an immense metals capacity needing to be used.

What happens next depends largely upon the general economy. The offhand assumption of many people is that our vast war products industry will have to close down almost overnight, and that the nation will become a great unemployed camp. This did not happen following the last war, and will not happen this time. Wholesale prices fell off 8 points, in the first half of 1919; agricultural prices not at all. Then an upward surge began that reached its peak in May 1920. The real post-war recession began in November of that year. In Great Britain and France, the depressions came several years later. Some of the post-war planners are saying that we can count roughly on one year of prosperity for every year that the war lasts.

The secondary inflation that follows the temporary letdown at the end of a war is induced by the great volume of deferred wants that seek satisfaction—wants for such things as automobiles, refrigerators, houses, furniture, farm equipment—supported by accumulated war savings.

Nevertheless, when the fighting stops, an immense task will confront the nation of converting a good part of its war industry to peacetime industry. Even though millions are employed in the conversion and rebuilding of plants, many more millions will be without work while this is being done. This will be a time of real danger that the millions who have left congested rural areas for wartime jobs and the army and navy, will start back to the land again as they did in 1930–32. Federal, state and local governments must be ready with such public works as are needed to stem the tide toward unemployment. These public works should be rural as well as urban.

How large a volume of public works will be needed depends on how well the conversion of industry is planned in advance, on how large a policing army is kept in the field after the peace treaties, and on how much reconstruction aid is given the prostrate countries of Europe and the East. We cannot afford to let European civilization crumble as we did last time—to let slide into the abyss the very things that we had been fighting for. This time there will be Asia and the East Indies in addition. Not our burden alone, of course, but ours more than any other nation's—on the simple principle of ability to pay.

The dangers of secondary inflation must be guarded against from the outset. The more that post-war buying power can be leveled out the better. It is clear that all the measures that are used while the war is on to prevent inflation—price control, rationing, taxes, savings—must be continued for a time afterward and only gradually relaxed. The management of the post-war will be harder than that of the war. A major reason for this is that we know less about how to do it. We do not have many examples of successful post-war management that we can use as a guide.

* * * * *

If the economy in general can manage its post-war successfully, then agriculture will not experience the adversities of 1921–22 when the index number of agricultural prices declined from 248 to 125 in 18 months, and the parity ratio sank into the 70's; and the large gains in per-capita farm income from increasing per-worker use of machinery and land and livestock during the war and afterwards can be preserved.

The larger acreage of land per worker, and the increased use of power and machinery, could result in "factories in the field." But if it does, *we* shall be responsible for this and not the machines. Supplying the family farm with equipment and enough land to furnish a good living is the surest safeguard of its preservation.

* * * * *

The future of agriculture in the longer run—twenty years after the war—is dependent upon how well our economy handles some of its more enduring problems. If it does no better with them than during the 20's, any successes we achieve in guiding the nation through the immediate post-war years will be largely cancelled some time later.

Basic to the long-run outlook are certain fundamental issues as to the nature and causes of the boom in the 20's and the depression following. One explanation, as we have noted earlier, runs in terms of price rigidities and the failure of prices of industrial goods to decline as they should with increasing efficiency of production in the 20's. As a result, even the workers themselves were not able to buy enough of them to keep the plants going at full capacity, to say nothing of the farmers with their still relatively low incomes, and the large groups of fixed salary receivers, bond clippers and pensioners of all degree. This kind of statement can easily be made to overlook the fact that higher profits earned as a result, for a while at least go into the financial system, either as dividends on stock or as surpluses for further investment, in either case possibly becoming the basis for new plants and plant expansions that provide new jobs. For purposes of present discussion it makes no difference whether it is a dividend receiver or a wage earner or a farmer who gets the money so long as he spends it for something that will provide jobs either directly or indirectly.

Another type of explanation stresses the availability of new types of investment for profits and earnings. In the 20's, housing and automobile transportation furnished that opportunity. After 1928, the housing needs had been fully supplied. The extra profits that piled up then served largely to finance an inflation of prices of existing securities. Since then, no important new openings for investments have appeared. With our richest natural resources already exploited, and a population approaching a maximum, the era of great investment expansion is over. From now on, leaving the current War out of account for the moment, our people must consume more of their income currently; and since the well-to-do can scarcely consume much more than at present, the prosperity of the future is dependent on getting more real incomes into the hands of the masses, either through lower prices for industrial goods or higher wages, preferably the former.

A third type of answer, which runs rather mechanistically in terms of investment cycles mainly, brings us to the same place so far as explaining the recent past is concerned, but offers more hope for the future. The main design in this pattern is an investment cycle running 7 to 10 years from crest to crest; but superimposed upon this a building investment cycle 17 to 18 years long; and possibly upon this a "long wave" of 50-odd years. The last prosperity peak in the long-wave cycle was 1920; in the building cycle, 1925;

in the investment cycle, 1937.[1] If these three are pieced together, we should be coming out of the trough of the last one any time now; out of the trough in building in a year or two; and slowly out of the long-wave trough almost any time in the 40's. It must be kept in mind, however, if this explanation is accepted as valid, that recovery picks up slowly at the start, and the long-wave recovery will be halted in 4 or 5 years by another downturn in the investment cycle, and in 8 to 10 years by one in the building cycle. The full cycle theory even includes a minor inventory cycle that splits the investment cycle into two or three periods of minor rise and fall. Nevertheless, except for these several types of recessions and combinations of the same, the country would have a right to look forward to a long period of gradual recovery like that from 1897 to 1920, in which agriculture prospered more and more, though probably to the disadvantage of labor relatively.

It is usual in such periods of long general recovery for the general price level to rise. In fact, some writers have come to look upon price level movements as the causal element. Professor Alvin Hansen concludes that the railroadization of the country furnished the drive for the long-wave recovery from 1843 to 1873; and the electrification and motorization of it the drive for expansion in 1897–1920. The only important existing force for expansion still left, which might start a long-wave recovery in the 40's, is electric power. Present electric power technology would not be enough. Therefore if such a recovery is to set in in earnest, some new major evolution in the American economy must be forthcoming. Thrice in the past, the western world has risen to the occasion. The Industrial Revolution sparked the revival marking a peak in 1815. If you are an optimist, you will say that the western world can be expected to perform a new miracle. If you are less imaginative, you look ahead at the stationary, or near-stationary, populations of most of western Europe and North America, at vanishing frontiers of the New World, and the rapidly lessening supply of virgin timber, and cheap easily exploited coal, iron and petroleum.

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[1] Alvin Hansen, *Fiscal Policy and Business Cycles*, Norton's, 1941, Chapter 1.

* * * * *

The post-war planners generally of late have been talking much less of the retarding effect of waning natural resources. The tremendous achievements of war industry already in sight, such as the great developments in aluminum production and synthetic rubber, have given them a fresh burst of confidence in the ability of the economy to produce another miracle. Improved cooperation between great groups of nations—all of them trying to help each other forward together—offers another dimly sighted hope.

Given a successful bridging of the period from the end of the war through what would ordinarily be the great post-war depression, the course from there on seems not so gloomily overcast as it did, for the general economy, and especially not for agriculture.

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